

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

**Ramona Frunză • Gabriela Carmen Pascariu • Teodor Moga**

Editors

EURINT  
Conference Proceedings

15 - 17 May 2013, Iași

**THE EU  
AS A MODEL OF SOFT POWER  
IN THE  
EASTERN NEIGHBOURHOOD**



EDITURA UNIVERSITĂȚII „ALEXANDRU IOAN CUZA” IAȘI

**Ramona FRUNZĂ**

**Gabriela Carmen PASCARIU**  
(coordinators)

**Teodor MOGA**

# **EURINT 2013**

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Iași-Romania

This volume is a result of the project “The EU as regional player. Cooperation and integration in Eastern neighbourhood (EURINT)” within the **Jean Monnet Life Long Learning Programme - Key Activity 1, financed by the European Commission (Grant No 2012-2712/001-001)**.

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The organizing committee is not responsible for the content and originality of the papers.

**ISBN 978-973-703-892-0**

© Editura Universității „Alexandru Ioan Cuza”, Iași, 2013  
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)

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**2013**

**Descrierea CIP a Bibliotecii Naționale a României**

**The EU as a model of soft power in the Eastern neighbourhood / ed.:**

Ramona Frunză, Gabriela Carmen Pascariu, Teodor Moga. - Iași :

Editura Universității "Al. I. Cuza", 2013

Bibliogr.

ISBN 978-973-703-892-0

I. Frunză, Ramona (ed.)

II. Pascariu, Gabriela Carmen (ed.)

III. Moga, Toader (ed.)

341.217(4) UE

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## FOREWORD

The publication of the present volume is generously supported by the European Commission through the Jean Monnet Life Long Learning Programme – Key Activity 1 (Information and Research Activities) and it is part of the wider research project “The EU as regional player. Cooperation and integration in Eastern neighbourhood (EURINT)” the Centre for European Studies has been awarded with. This volume is a collection of articles elaborated for our international conference THE EU AS A MODEL OF SOFT POWER IN THE EASTERN NEIGHBOURHOOD (15-17 May 2013) by project participants from over 10 countries whose main area of research interest focuses on the neighbourhood issues.

The EU as a model of *soft power* has a powerful attraction in the world and even a much more influential one in its near abroad. The EU has an interest in promoting its model as a contribution to good governance, democracy, economic prosperity and security, which are essential pre-requisites to an effective regional cooperation framework. It also has a major interest in continuing to preach the merits of sharing sovereignty as a necessary condition to tackling many of today’s global problems such as sustainable development, poverty, the environment, transnational crime, and more recently, the economic crisis. Since its inception, the EU has also become the largest trading block and aid provider in the world which gives even more weight to its international role. The papers published aim to provide a better understanding of the challenges the EU faces when acting within and outside its boundaries, transmit knowledge about the EU global and regional clout, particularly in its Eastern proximity, an area of vital importance for all of us and also serve as a platform for the exchange of views between scholars, experts, civil society activists and Ph.D. students.

The volume is structured around *five sections* with the aim of providing participants with a comprehensive understanding of the EU’s transformative role in its Eastern neighbourhood:

- I:* The EU as regional and global player. Impact on the neighbourhood
- II:* The EU "transformative power" in the neighbourhood
- III:* The Eastern Partnership (EaP) looking forward: achievements and future
- IV:* The consequences of the economic crisis on EU's competitiveness
- V:* Regional development and European governance: achievements, obstacles and incentives

We are confident that this collection of articles will represent a basis for future cooperation in the field of European studies and also a source of inspiration for the

ones who exhibit a will to play an indispensable role in shaping the European lines of thought and policies. These include matters such as the challenges for the neighbourhood states (future of the European Neighbourhood Policy and the Eastern Partnership), the EU transformative power in the neighbourhood, the economic conundrum faced by the EU, the European Union contribution to good governance, democracy, economic prosperity and security.

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**Session I: The EU as regional and  
global player. Impact on the  
neighbourhood**

# CHINA AND INDIA, A CASE STUDY ABOUT THE MENTALITY HIGHLIGHTS IN THE GLOBAL EQUATION OF CHANGE

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**Abstract:** *This paper brings into light different elements from the evolution of collective (social) mentality, with the purpose of noting some aspects of the efforts in changing the mindset. It is important to note the fact that during the development of this content, we tried to consider this change as a special category of externality that appeared precisely as a result of change. Following the same pattern, the sustainable development, considered such a current event, counts precisely on the absolute winner mentality from the Great Required Change: humanity with everything related to it, not just economic, but also spiritual. The juxtapositions between change and externality are dedicated to the opposite features and to the possible similarities between two exponents of the global economic architecture: China and India.*

**Keywords:** economic growth, externality, change, China, India

## INTRODUCTION

Will we succeed to join together both the terms externality and change? The economic theory makes no explicit reference to it, but at the same time it does not exclude it entirely. Based on the theory that science evolves, we tried to induce it implicitly by addressing not only the well defined route of the economic component, but also its motivational edge generated by change. We have set the goal that the mirror of juxtapositions between change and externality may be double sided. The first is dedicated to the opposite features and the other one to the possible similarities between the two exponents of the economic future: China and India.

In a period which exhibits predominantly material earnings, the economic performance of these two countries was the element that recalls the attention of numerous business people, politicians and academic communities, as they are characterized by very conflicting motivational issues that deserve our attention in a world of continuous change.

## 1. ABOUT EXTERNALITIES

In a general accepted manner, *externality* may be perceived as the positive or negative effect emerged from the interdependence between economic agents in the market, effect which is nonauthorized directly through market mechanisms and price; broadly speaking it is about „*unpaid services and uncompensated damages*”. (Vuță, Gherghina, 2006, p.53) In what concerns creators and receivers of externalities, the „*producers*” may be business agents, individuals or even the state (throughout appropriate legislation / regulation which protects individuals and business agents); the „*receivers*” may be individuals (society) and / or firms. (Rovai, Gorelli, 2007, p.10)

Consequently, we consider externalities as the effects upon the external environmental (social, economic, political, natural), caused by various economic entities, both production and consumer ones, but also due to the effects derived from both of them. They are the results of property rights failure due to the absence of some markets (when exchanges are not voluntary and when there are no prices to adjust them), revealing at least some features:

- a) *Externalities are considered derived effects from the activities of other economic agent, other than the one who supports or is influenced by it. What does this mean? Those economic activities are interdependent and nothing takes place in isolation.*
- b) *Externalities are not recorded by the market directly, and due to that fact, they do not affect the price formation process and they do not influence the competitive balance.*
- c) *A relevant feature of externalities is the fact that their effects are not a deliberate creation, but an unintended or accidental secondary result of a legitimate activity.* (Mishan, 1971, pp.2-4)

The typology of externality is relatively very wide. We will consider only few criteria of classification which we find most common:

1. Taking into consideration their *economic impact*, they can be classified as:
  - *External economies of production.* These occur in the situation when a producer generates through his work important benefits for other producers, without the latter to bear any costs.
  - *External consumption economies.* These occur in the situation when a consumer generates through his activity some benefits for other consumers, without the latter to bear any costs.
  - *Foreign production diseconomies.* We consider those situations when a manufacturer, through its activity is causing important damages to the others, without the latter to receive any financial compensation.

- *Foreign consumption diseconomies*. They usually occur in the case when a consumer through its activity is causing damages or shortcomings to the others without the latter to receive any financial compensation.

2. Taking into consideration *the impact upon the prices*:

- *Pecuniary externalities*, which appeal to those cases when the production/consumption behavior of a certain group has an impact upon the prices, the results being quantified in the change of the budgetary restrictions. (Ailenei, 2002, p.6) Basically, these externalities affect the general welfare of another group of people.

- *Non-Pecuniary externalities*, resulting from the interactions which are not transmitted throughout the market, being unrevealed by the price system.

- *Network externalities* are considered a special category. For example, if an individual purchases a phone or uses the e-mail, it can communicate to the others and vice versa. If no one has a phone or an e-mail, the effect of the purchase is considered null.

3. Considering the effect generated by the *economic activities* (in terms of costs and benefits):

- *Positive externalities* occur in the situation when the actions of an economic agent produce beneficial effects upon others. More precisely, when an economic activity of production or consumption is associated (as a side effect) with positive effects upon other economic subjects (companies and/or consumers) and they do not pay any price for those specific benefits then is when we are talking about positive externalities.

- *Negative externalities* occur in the situation when an economic agent activity produces undesirable effects upon others, assuming additional costs. These types of externalities are the most common external effects because they generally affect the general welfare of society (gaze emissions, damages upon the environment, etc.) (Samuelson, Nordhaus, 2000, pp.422-434)

- There are also situations when a certain activity generates *both positive as well as negative externalities*. The classic example is the one of an economic agent that decides to build a factory in a village. The positive effects generated by its activity can be summarized as: creating new jobs for the community, increasing budget revenues (through taxes), economic profits from production and sales. But at the same time if its activity involves pollution, we may talk about negative externalities.

Consequently, we may argue that externalities are considered a consequence of the manifested interdependence between producer and consumer. The debate upon externalities, especially the negative ones should be a public concern. When an economic agent, be it a producer or a consumer, takes a decision without taking into consideration the effects generated upon others, then this decision, although it is the optimal one for the company in question, may or may not be accepted by society.

Let us not forget the fact that any *change*, be it in production, consumption or individual/collective mentality generates externalities. Whether they are positive or negative, pecuniary or non-pecuniary, it depends from case to case. In order to observe what the change of mentality implies, we will proceed to study some of its essential features.

## **2. A CASE STUDY: CHINESE AND INDIAN MENTALITIES IN THE GLOBAL SCENARIO OF CHANGE**

China and India constitute well defined entities analyzed from the economic and social perspective, but also from the point of view of mentality. Together, these two countries account for approximately 40% of the world's population, benefiting from economic systems with huge potential and until recently they have been regarded as poor countries with large masses of population which were living below the international level of poverty. Both countries are ancient civilizations that have suffered impressive losses due to the western civilization. Despite all that, the recent decades brought important changes through their social, economic and political movements and China and India can be seen in more complex perspectives. In this regard, some researchers (Martin Wolf) in the field agree that the economic growth of Asian giants is the most important story of our time, meaning that it stresses the end of five centuries of European domination.

In the XXI century, China and India were regarded as real economic powers of Asia, with global influences. The question is not whether, but how soon will the two become some of the most important operators on the economic arena, managing to influence the overall contour of the global economy. (Das, 2010, pp.7-12) From some points of view, they are among the economies with obvious achievements and this leads to various comparisons between these two giant neighbors, many of them based upon social and economic mentality.

Although both countries are important actors in the field of global economy, their rates of growth are different: China's economy has suffered probably the fastest and greatest transformation in the history, becoming a key player on the international economic scene. Of course from the economic perspectives India is far behind China. On the other hand, India is still a democracy and China remains a closed „citadel”, leaded with authority by a controversial political system.

Here are some comparative highlights regarding the mentalities of these two nations:

1. For experts (World Bank, 2012), China is viewed as an „incredible story” being regarded as a „growth pole”, that offered a „successful response” to the recent crisis, managing to adopt such measures, that millions of people were saved from the poverty. Moreover by 2030, it is expected that global challenges will require important movements in China, propelling it into the top of the growth pyramid (World Bank, 2012), although it is possible that in the near future its

economic growth will attenuate (Panckhurst, 2012) (we may speak of a possible „slowing down”).

Even though many experts consider China as a promoter of unsustainable growth (Panckhurst, 2012), the overall assessments are that it always adopts the same winner attitude. In fact, we notice a continuous attempt to internalize the negative externalities that this huge economy is facing, throughout at least two methods: on the one hand the use of the available resources and on the other side the ancient call for „art war”. (Bodea, 2001, pp.118-125) According to Sun Tzu – one of the greatest strategist of all times – if during a war (in our case an economical one) the superiority over the opponent is net, the indicated tactic is the encirclement; when it is a considerable one, the policy becomes an attack one; if the advantage is fragile, then the division should be applied; the force ratio being equal one should attack; when you find yourself in inferiority you use defense; finally if the opponent surpasses you at any level you find new ways of evasion. (Tzu, 1976, p.39) The victory will belong to the one that knows how to fight, how to use the available techniques, how much to count upon loyalty and unity, how careful to be and how much to count upon hierarchical relationship.

Taking into consideration all these, it is hard to „make from a winding path the most direct route and to turn the misfortune into an advantage.” (Tzu, 1976, p.53) All these are considered true action rules for an inter-temporal Chinese mentality, invariably willing to take a step forward.

From a rural society, China is moving rapidly towards an urbanization rate exceeding 50% in 2011, but it is estimated that until 2030 approx. 70% of the total population will be living in the city. (World Bank, 2012) The population growth will imply a series of benefits for China: it is estimated that each 1% increase in the level of urbanization is equivalent with the fact that over 10 million people from rural areas become urban, each of these attracting nearly 16.000 USD investments in infrastructure. (Xinli, 2012) At the same time the negative effects of such externalities will inevitably be related with the infrastructure and environmental problems (especially water and sanitation), but also to the traditionalism sometimes driven to extreme (Chinese culture being influenced by Confucianism and conservative philosophies). With all that we must face one fact: China is a dragon whose mind path is predefined by religion (Buddhism being the main religion for approx. 70% of the population). The religious mind can explain the high degree of tolerance for the lack of freedom (speech, religion and media – including the internet) which Chinese people faced in time. And, even though now, at the beginning of the third millennium, the changing society, will be a *ferment of externalities* generated by ideologies that marks the modern human, it will not succeed to overcome the traditional Chinese mentality, tributary to the idea of „*respect by obedience*”.

2. On the other side, India’s fascination is the final product of many centuries of complexity, as briefly noted „nothing is completely forgotten” (according to

the traditions, Indians perceive history as a series of cycles started in gold and finished in darkness).

Starting from the fact that knowledge is dependent to social factors, relativism is for Indians the „philosophy” that moves the gravity center of the individual between knowledge, sociology and science. Why is that? Because time – a universal element – belongs equally to knowledge and to the absolute. From a socio-economic perspective, time is the one that determines the comparison of both success and uncertainties in the course of evolution. Perhaps that is why the ones most accustomed to meditation are the Indians, who, apart from extreme poverty, which is such a common thing for some of them, do not cease to spiritually evolve for self discovery.

India is a country of profound contrasts. The rich is neighbor with the poor, luxury overrides complete mess, and the overall result is that India evolves from the economic point of view. The manner in which people perceive reality is different from country to country and especially from culture to culture, taking into consideration the fact that the attitude towards terms like *work*, *productivity*, *effort* is also different, the cultural barriers being regarded as a source of *inefficiency and poverty*. Poverty determines important negative effects upon economic growth due to the following facts:

- On the one hand, people living in such an environment cannot develop any skills, aptitudes and qualities they benefit from in order to provide attractive labor resources.
- On the other hand, individuals who are subjects of the poor economies, react unpredictably to other stimuli than the material ones. Exceptions are those for which the mind transcends reality (religious extremists).
- Finally, although economic growth is meant to reduce poverty incidence it cannot neutralize its effects.

Therefore from an institutional approach upon the problem of changing mentality, we are interested in the conflicts between social groups as a starting point for economic analysis. Some researchers consider institutions as customs data, invested with legal authority. Their origins have been searched, progressively, in different moral conceptions or psychological factors. (Pribram, 1986, p.363) Based upon these facts, the impact of economic events and intellectual movements has become an important determinant of the changes inside the social institutions, becoming more or less quantifiable externalities. In our case, in the last 60 years, India gained much success but also failures: drafting a constitution, creating a democratic state, press freedom, Indian culture (also Indian advantages), counterbalance to extreme poverty, religious violence, unrest caused by disputes with China and Pakistan.

Let us now look at things from a global perspective. China and India have embarked on the path of development; have adopted different political systems and different growth strategies, resulting – for each of them – individual developmental

trajectories. Both started economic reform in the 80s, were gradually adapting to the development approach and are comparable in terms of institutions' development. However China was the first one which oriented its economy towards global trade, operating better with regulations while India relied on a higher juridical interdependence and protection of property rights.

The roughness of the new „Asian economic wave” was foretold by the myths of success from these two economies that knew how to take advantage of the benefits of globalization, achieving different results. High growth rates are associated today with the economic policies adopted by each country and most analysts consider that India's and especially China's performances are the result of the economic reforms and of a true obsession towards international trade and investments. Very often the differences between the Indian and the Chinese models are the causes that determine different results, although both aim to improve their living standards. If Chinese development was accompanied by the increase of the living standards, India's experience was different: the only beneficiary of this development was the new middle class (minority as percentage). Taking into consideration these realities, it seems that- temporally – it has never been a more appropriate time for analysis of the growth patterns of China and India than the current period (extremely influenced by the economic crisis). (Sornarajah, Wang, 2010, p.XV)

Until the last decade of the XX century, India maintained a mixed economy, with the purpose of a capitalist development (see post-colonial reminiscences that blocked in many cases, the country progress). China, on the other hand, maintained a controlled economy, which is still using self-regulatory mechanisms. China's economic growth rate is situated at a very high level for a long time, unlike the moderate expansion of India.

Both China and India are unique and ancient civilizations, to some extent isolated from the rest of the world and one from the other (we refer to the Himalayas, the Great Wall of China and the Indo-Gang), with similarities / differences that may be studied today thanks to the capitalist concepts they signed to. (Er, Wei, Thepchatree, 2009, p.5) While economic (trade) relationships and the political ones have swung between disagreements (in the eighteenth and nineteenth, and later on in the twentieth-century from various causes: unmarked borders, India's nuclear tests, India's relations to Russia, civil agreement upon nuclear power between India and U.S., the support China gave Pakistan) and collaborations (either to stop Japanese expansion, either by establishing diplomatic relations after achieving independence and especially in the XXI century).

Nowadays the importance of profit is a crucial factor for everyone, and obtaining gains/incomes determine individuals to want to maximize them, these being specific features of a true *homo economicus*. For the majority of Indians and Chinese (tributary to religious norms) wealth becomes a virtue only if it is associated to practicing a responsible and legal work. Otherwise, it does not create

a social good. This principle is in accordance with the one stated by Marx Weber: „For God you may work in order to achieve wealth” (Weber, 2007, p.174) meaning that being rich is an impulse in order to be moral, and being poor, equals with the inability to create something useful, denoting immorality in a certain manner.

The distinctions between business skills (work, diligence, thrift, wisdom, creativity) and social virtues (honesty, credibility, cooperation, sense of fulfilled duty) is more difficult to be noticed in a capitalist society; however, it becomes extremely important for the Chinese population and the Indian one, as the progress of both nations is based upon community values and especially the traditional ones. Therefore both in China and India we notice a certain degree of spontaneous sociability between members of the same community (groups of individuals who are guided by the same precepts), generating *social solidarity*.

The idea is promoted by Francis Fukuyama which puts into question one of the most important binders of successful economic communities: mutual trust based more on mutuality and tradition, and less on written rules. He argues that „Ethical habits, such as the ability of spontaneous association, are critical in the light of new forms of economic organization and determine a significant variation in economic structure. In other words, it may happen that the more gifted ones with the ability to maximize the utility may not be the most rational ones; the ones that provide moral and socio-traditional virtues in an irrational manner may not be considered so disabled or chaotic as some economists would like us to believe. (Fukuyama, 2003, p.24)

Recently both China and India have registered changes (more or less significant) concerning their economic mentality, alternating the producer position with the consumer’s one according to time pressure (for example differentiated economic policies during economic crisis). Of course, India’s place on the world market is not such striking as in the case of China, as its economic dimensions are about one third of those of the Chinese giant and its total GDP per capita (as well as the consumption) registered less pronounced tendencies than those of China. Besides all that, both China and India are part of the economic conglomerate G-20, both of them are members of the most developed countries and at the same time of the most incisive emerging economies, synthesizing their priorities according to the main group goals (*What is the G20?, 2012*): economic policy coordination for sustainable growth and stability, promoting regulations capable to reduce risk on the capital markets in order to prevent financial crises, creating new financial architectures. Therefore we may discuss about a rallying of China and India (from an economical, political and mental point of view) to the global concepts and priorities of the third millennium.

The National Intelligence Council admits the „giant’s growth” (China and India) over the next 15-20 years, with the following specifications (National Intelligence Council, 2008, pp.29-31):

- Few countries will achieve greater influence than China in the following period. If the current international circumstances does not change dramatically, until 2025 China will become probably the second world economy, a great military power and probably the most important importer of natural resources.
- India is also expected to gain a rapid economic growth (even though complicated) in the period analyzed (impressive in comparison with other countries). Despite the old social problems, the ones related to infrastructure and labor force, India will make impressive efforts in order to recalibrate its influence worldwide.

## CONCLUSIONS

As Friedrich Hayek stated: „The view according to which all efforts should be guided by the opinion of the majority, or the view that argues that a society harmonizes better if it conforms to the standards of the majority, stand as a reversal of the main principle on which civilization growth was based. Its adoption at a general scale would probably mean stagnation, if not also the declining of the civilization.” (Hayek, 1998, p.131) Based upon this reason we can argue the complexity of the current international *competition development* – which is closely related to the information industrialization. Such a conclusion is decisively influenced by a series of endogenous and exogenous factors in relationship with the national economy such as:

- Differences in what concerns: the geographic, demographic, socio-political, economic, legal, cultural framework (referring in particular cases at *mono or policronism*)
- Differences in what concerns the macroeconomic system or regarding institutions (the ones referring to the models adopted by national economies) which generate various externalities.
- The collective consciousness, different from one nation to another.

Taking into consideration only the mentioned reasons, *in economy one can beat neither on uniformity nor or universality, but it may instead study uniqueness*. And uniqueness implies change, including the one referring to mentality. Studying all these aspects Michel Didier formulates the following question: „What are the economic confrontation stakes between nations?” (Didier, 1994, p.171) Our answer to such a question would be related to the multi-polar economic world today, which does not allow the *pure* economic independence of a state. It seems that for Michel Didier, „the dimension of social change is equal to human life” which „is not measured by years, but by centuries” (Didier, 1994, p.245) and here is the return to the *big bang* from the beginning of the *historical evolution of the economy*. Why is that? The answer is because „Tomorrow’s economy will have little similarities with the one of yesterday. But in a continually changing environment challenges and stakes remain the same. If we examine carefully, we

will notice that they will always embody the same game rules.” (Didier, 1994, p.307)

Of course no economic system is immutable. The laws of development have always determined – and will continue to do so – the evolution of such systems that prove their *viability* at the expense of those that are exponent of an outdated way of thinking. We cannot know if the capitalist system will be the only winner, but – at least for now – no other one showed its superiority. At least, this is because the capital *God* (Beaud, 2001, p.30) has established its domination over the world.

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# THE EUROPEAN UNION'S LEADERSHIP POTENTIAL

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**Abstract:** *The European Union as a global leader takes part in solving many international problems. In its foreign policy, and in the estimation of global threats, the EU is similar to the United States of America. However, the peculiarities of the political nature of the European Union, its unique geopolitical specificity and economic aspirations determine significant differences between the international strategies of the EU and the U.S. The European Union developed its own style of leadership in the world politics - more restricted, but in the long term prospects, may be more effective than the American one. The analysis of the EU leadership potential allows us to determine its degree of the global leadership.*

**Keywords:** global leadership, leader's potential *soft power*, international relations.

## INTRODUCTION

European Union can be reasonably reckoned among the circle of global leaders. The *soft power* of the European Union is implemented in the programs of assistance to reformation of economies of neighboring countries. Striving for facilitating the resolution of their social and economic problems, the European Union simultaneously aims them at European economic and trade priorities. It is possible to overcome social and economic and political difficulties only by means of gradual and soft, non-power fulfilment of reforms. And in the documents on its regional strategy the European Union it is stated that reforms may not be imposed on from outside. They must be originated by internal factors. We may structurally mark out several aspects of the potential of global leadership of Europe.

### 1. ECONOMIC ASPECT

There are serious economical reasons allowing speaking on global leadership of the European Union. Such international statistical indicators as population size, territory area, annual GDP per capita, economic growth rates, volume of foreign trade, foreign trade turnover and share in world trade indicate

that the European Union possesses powerful economic foundation and it is the biggest participant of international trade.

On the whole the countries of the European Union cover 32 per cent of world trade. According to the analysts, economic positions of the European Union will be strengthened by transatlantic treaty on free trade between the European Union and USA, the decision on which has been taken in the summit of the European Union on 08 February 2013. According to the forecasts of European and American governmental experts in 15 years the decision will add the Europe's GDP growth by approximately 0,5%, and that of America – by 0,4%.

## 2. CULTURAL ASPECT

Cultural and political influence of the European Union that has global nature is an important element of leadership potential. Today the conception *European values* has become quite broad. It includes the notions on the necessity of resolving the disputes in amicable way through negotiations, observance of civil and political rights and liberties of human being and ethnical minorities. Such components of European values as guaranteeing economic and political stability based on the social solidarity and rise in well-being of Europeans, maintenance of safe and amicable external environment. These values exert influence on political culture of many non-European countries and regions.

On the home-policy level, these values are shared by all European states united. They are an important motif, moving the European Union to develop a common foreign policy. “The essence of Europe as the center of power, embodied by the European Union, consists in its fundamental morality”.

No less important is the external aspect of the influence of European values. While the U.S. exerts its leadership influence straightforward and directly by means of force, the EU countries impact on international relations softer, giving priority to indirect tools. For example, they watch their prestige in the consideration of the facts of infringement of human values. The Council of Europe, in which the EU countries set the tone, is the most influential organization in the world for human rights protection. In fact, the Council of Europe forms a global canon of human rights protection standards, seeking to extend it to the entire international community. It is no accident that human rights activists of all countries appeal precisely to European assessments of situations prevailing in their countries with human rights and political freedoms. They are interested in the European position not less than in the Washington's opinion on relevant issues. Leadership in the field of human rights protection activity is an element of the potential of moral and political influence of the European Union.

The recognition of the high authority of the European tradition of morality and the struggle for justice was the fact of deployment in Europe of international

judicial bodies and tribunals - the UN International Court of Justice, the UN International Tribunal for the Former Yugoslavia, the International Criminal Court, the European Court of Human Rights and other.

An important tool of cultural and intellectual leadership of the European Union has become a successful EU integration experience. Now European Union can be called global intellectual center for many countries, especially those that have an interest in integration projects.

### **3. POLITICAL ASPECT**

Let's consider the political aspect of the EU's leadership potential. The European Union is the largest and influential player in the field of world politics. It carries out its political activities in the framework of the mechanism of the Common Foreign Policy and Security Policy, incorporated into the structure of the working bodies of the European Union. European Union's policy towards its neighbours is carried out on the basis of a common goal: "the establishment of EU environmental zone of stability and prosperity, consisting of friendly countries, from Morocco to Russia".

The European Union exerts tangible political influence in the world by coordinating the positions of its members within the framework of NATO. Using the resources of the alliance (NATO), European Union is building up its own potential of international influence.

The political influence of the European Union allows adjusting the long-term changes in international development. It is through this resource that the European Union can influence political processes taking place in geographically proximate or remote regions.

### **4. ORGANIZATIONAL ASPECT**

European Union efficiently uses in international activities its organizational resource that is determined by the participation of the European Union in a number of multilateral world and regional organizations, regimes, dialogues, forums, etc. It has been developed stable practice of regular meetings between senior officials of the European Union and the governments of leading countries of the world – the U.S., Russia, China, Canada, Japan, and India. The representatives of the European Union participate in the work of the most prestigious international bodies. In addition, the European Union has an extensive network of official bilateral trade, partnership and association agreements with dozens of countries in Eurasia, Africa, the Caribbean and the Pacific, as well as South America.

Adoption by the partner states of legislative norms by the European model significantly facilitates for EU firms doing business with counterparts

from Eastern Europe and the Mediterranean. The European Union has a huge influence in the World Trade Organization too. Actively using the procedures for resolving trade disputes within the WTO, it defends its interests in relations with the United States.

Having a powerful organizational potential, and being the world's largest trading block, the European Union is based on non-coercive instruments of governing international relations.

The use of organizational resource is much more consistent with the objectives of EU foreign policy than the power resource used by the United States. This is another important difference of the strategy of soft leadership characteristic to the European Union.

## CONCLUSIONS

EU foreign policy activity increases as it moves along the path of integration. At the same time, common foreign policy has become a way for the European Union to strengthen and develop its cohesion. European Union pursues a foreign policy through the use of instruments of "soft" power.

The objectives of the European Union policy are largely designed for the long-term outlook, and less - to get a quick win. It allows the European Union to promptly correcting methods to achieve these goals. The strategy of soft leadership causes less resistance and is associated with a lower risk of trying to neutralize it. This is the advantage of the strategy of the European Union and this conditions the global leadership of the European Union.

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# POLITICAL IMPACT OF CHINESE FOREIGN DIRECT INVESTMENTS IN THE EUROPEAN UNION

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**Abstract:** *This paper explores the political challenges posed by the recent influx of Chinese Outward Foreign Direct Investment (OFDI) into the European Union (EU). Chinese OFDI has increased substantially in recent years. Chinese direct investment is still minute in the EU, but it is growing fast and the strong upward path is likely to continue in the years to come. This surge represents challenges and opportunities for the EU countries. In the current context of economic and debt crisis in Europe, whether China is seen as a saviour or a predator, the question of a Faustian bargain made by the European countries by courting and hosting Chinese investment needs to be asked. The benefits of Foreign Direct Investment (FDI) for the host economy are well known, but Chinese OFDI may come with implicit strings attached and could potentially act as a Trojan Horse, affecting European norms and policies. The influx of Chinese OFDI can create an unhealthy transatlantic competition with security ramifications, which should therefore be addressed. It's interesting to find the right balance between ensuring the benefits from Chinese FDI, from job creation to productivity gains, while protecting from its harmful effects.*

**Keywords:** China, EU, FDI, political challenges

## INTRODUCTION

FDI has been a pillar on European economic and political integration for the past five decades. With the "Treaty of Rome" in 1957, six nations founded the European Economic Community (EEC) and established a common market based on the four freedoms: the free movement of goods, services, people and capital. By the late 1980s all capital controls among member states were abolished and the freedom of capital movement was subsequently extended to countries outside the EEC. Today there is broad agreement that the free flow of capital is essential for a well-functioning European Single Market and that openness to global investment is beneficial for Europe.

FDI was the cornerstone of China's post 1978 economic miracle. Opening unto FDI brought a flood of much-needed foreign capital along with the technology and managerial know-how, the Chinese economy into efficient regional production chains (Naughton, 1995) (Rosen, 1999). After joining the

World Trade Organization (WTO) in 2001, China became the world's second-largest recipient of FDI. Chinese OFDI started much later. Short on capital and fearing the asset stripping and capital flight that had ravaged their communist cousin after the breakup of the Soviet Union, China maintained strict controls on financial outflows even after capital was no longer scarce. Today, Chinese OFDI has become one of the most keenly followed stories in the global economy over the last few years because the phenomenon is new: the People's Republic of China has not historically deployed capital beyond its borders. Also, Chinese OFDI may be seen as an indicator of the country's geopolitical intent and its wider international political strategy. China is a new kind of colonial power using its economic force to buy into economies and influence their international affairs.

The EU and its member states are positive about the benefits that FDI brings to their economies in terms of increased productivity and efficiency stimulated by greater competition. It is also apparent that the EU has gained from Chinese investment in European government debt whilst managing recent difficulties. As Europe looks to attract more FDI and China wants to increase its OFDI, it is timely to consult with those Chinese enterprises that have invested in Europe in order to find out what obstacles they face and how these can be overcome.

Chinese OFDI has been increasing since the mid 2000s and the trend of Chinese companies investing in Europe has become more prominent in the public sphere. Increasing OFDI is a key goal of the Chinese government and it's seen as a key tool in advancing its economic development. Europe is becoming a more frequent destination as China moves beyond making investments focussed on securing resources and on acquiring advanced technologies, expertise and brands. Chinese companies are mostly looking to access the European market to sell their goods and services but increasing number are looking to acquire technologies, expertise and brands through mergers and acquisitions (M&A) with European companies to improve their capacity to compete both at home and abroad. The majority of Chinese investments into EU have been relatively small in size but larger M&A deals are becoming more common and are likely to continue to increase in the future.

Europe is viewed by Chinese investors as a safe, stable destination for investment. It has a large consumer market for sales of goods and services as well as advanced technologies, educated workforce and desirable brands that could be acquired to help their competitiveness both domestically and internationally. Operating in the EU is not considered easy and there are numerous obstacles often relating to bureaucratic procedures and high costs. There will be increased future investments from China into the EU and if the policy makers of both regions can positively address key issues, this investment relationship can develop further.

Chinese OFDI in Europe is still minute, but to European publics, reeling from what seems like a never-ending economic crisis and wary that is called “rise of the rest” is consecrating their own precipitous decline in power, it seems that Chinese companies are taking over and “buying up the world” (The Economist, 2010). The longer the crisis in the Euro-zone the more it seems that China has its sights set particularly.

The potential hosting of Chinese investment is viewed in Europe with ambiguity and trepidation. It represents simultaneously opportunity and menace. The security and economic implications of such investment are well known. What about political implications? Chinese OFDI is driven overwhelmingly by commercial motives. Chinese policy is playing a role, but mostly in terms of getting government out of the way the firms can make more regional judgments about locating operations. Direct political guidance has played a minor role in Chinese investment in Europe so far. China’s industrial policies and encouragement of going abroad are impacting investment decisions. The mix of industries targeted, the high number of private enterprises making investments and the competitive behaviour of companies from China after they arrive and set up shop in Europe, all point to profit as the greatest motive in Chinese OFDI story.

## **1. CHINESE OFDI IN THE EU**

Most of Chinese OFDI come from the big State Owned Enterprises (SOEs) looking for resources, knowledge and markets. Another part comes from private companies. Motivated by the potential market, they search for management skills and knowledge. Besides the SOEs and private companies, there is a third flow of capital moving abroad; this flow does not relate to direct investments, but these are the investments in mostly treasury bonds to finance the government deficit (Ebbers and Zhang, 2010).

The main countries in the EU for Chinese OFDI are France, Italy, Spain, The Netherlands and the United Kingdom (Coppel, 2008). Also, China is more and more active in Central and Eastern Europe. Companies such as TCL, Bank of China, CNPC, Industrial and Commercial Bank of China found their way to countries such as Poland, Bulgaria and Romania (Ebbers and Zhang, 2010). The rationales behind Chinese investment in EU are investigated by various authors. Some indicates that Chinese companies are motivated by both “push” and “pull” factors and expand their business in the EU (Gattai, 2010). The push factors relates to the economic and political environment in China (the level of overcapacity in certain markets and government policy to stimulate OFDI). Pull factors refer to the host country characteristics such as the potential market and other location advantages (Ebbers and Zhang, 2010). Some research focuses on specific bilateral relations: Chinese investments in the UK (Burghart and Rossi,

2009), Chinese investments in France (Nicolas, 2010), Chinese investments in the Baltic States (Barauskaite, 2009). They make clear that access to foreign markets is the overwhelming driver behind China's outflows of investments to the EU and that policy at home and in the host country is utmost importance. Many studies support the view that market seeking is an important motive to invest in the EU (Buckley et al., 2007) (Zhang and Filippov, 2009). Some authors indicate the important linkage between GDP growth and flows of FDI (Johnson, 2006). This relationship is in line with the Investment Development Path (IDP) theory (Dunning and Narula, 1996). China's investment development from 1980 to 2009 is following the IDP (with increasing ownership-advantages for its domestic companies). Specific government policy, including tax incentives, are crucial for Chinese companies to make decisions on FDI in other countries and thus China's "Going Global" policy becomes an important rationale behind Chinese FDI towards the EU. This policy was announced first by the Chinese government in 2000 and executed over the following years; by consequence the overseas investments of Chinese companies increased dramatically. Foreign exchange related regulation, fiscal and administrative obstacles to international investments in China were removed step by step (Sauvant, 2005). At the same time, when China implemented its "Going out policy", the countries in the EU including Central and Eastern Europe implemented favourable policy measures to attract FDI from abroad. These provide incentive for FDI via tax-concessions, tariff abolition, settlement of free economic zones and avoidance of double taxation. Investments in selected sectors, such as the agricultural-related products and the businesses that implement new technologies, are given preferential incentive like investment allowance or tax credits (Radu et al., 2007). Most legislation on FDI is generic and attracting more Chinese FDI became a priority for many countries, including the Czech Republic, Hungary, Poland, Romania and Ukraine and Russia who have signed Bilateral Tax Agreement (BTA) with China (Ebbers and Zhang, 2010).

The distribution of Chinese investment across the UE is an important indication of the ability of Chinese firms to invest and of their motivation for investment. Chinese affiliates may simply be handling goods produced in China in which case firm competitiveness must inevitably owe more to the comparative advantage of China as a production base than to abilities specific to them. Chinese direct investments in the economically developed countries indicate a motivation to acquire technologies and brands as well as a degree of capability and competitiveness intrinsic to the firms concerned. Investments in the Fifth-Enlargement countries of the EU point towards low-cost production strategies that target only the European market without upgrading the abilities of the investing Chinese firms (Clegg and Voss, 2012).

Chinese investment in the EU only accounts for a small percentage of Chinese total overseas investment, much lower than one would expect given that

the EU is an important economic power. 80% of Chinese OFDI towards the EU can be labelled as M&A. Different determinants influence the outcome of China's overseas acquisitions, the most important ones being: bilateral economic relations, ownership of the acquirer, competitiveness of the acquirers, global experience and the sensitiveness of the industry (Zhang and Ebbers, 2010). Also, the institutional quality of host countries influences directly and indirectly Chinese overseas acquisition. The EU is an entity of 27 different nation states and one common market with harmonised rules and regulations. Chinese companies have to meet not only the EU regulations, but also for every individual country. The Chinese firms perform better in countries with lower institutional quality than the firms from developed countries (Buckley and al., 2007).

China and Europe could mutually gain from the creation of a new international investment regime. New investment in Europe is essential for overcoming the Euro-zone debt crisis and re-launching economic growth. Also, it is essential for sustainable development: to create new green products, processes and infrastructure that will replace our present unsustainable way of living. China is actively searching for new ways of investing its financial capital in long-term productive assets abroad. Chinese emerging multinational companies (MNCs) are latecomers to the global investment scene and so they have most to gain from integrating into the international economic system. Emerging Chinese MNCs have abundant financial capital but they lag behind their European counterparts when it comes to the human capital resources needed for the successful management of global corporations (Gavin, 2012).

## **2. POLITICAL IMPLICATION**

The Lisbon Treaty has given new powers to the EU institutions to develop a common policy for FDI in parallel with its common commercial policy (Gavin, 2001). This establishes foreign investment as an "exclusive competence" of the EU which signals that investment policy will be developed at the European level from now on. The era of the bilateral investment treaties (BITs) has come to an end and we are moving towards comprehensive European investment treaties for the future. The Commission plays a leading role in the new institutional framework. It introduces new legislative proposals, prepares the technical ground for the negotiations and conducts the negotiations.

The combination of the global financial crisis, the massive accumulation of currency reserves and the sovereign debt crises in Europe has turned China into a potential savior, seemingly dropping "helicopter money" in national economies that have few alternative prospects of cash influx. China begins by preying on the weaker EU countries before insidiously penetrating the rich European economies using OFDI as part of its master plan to take over the world (Meunier, 2012). The competition between EU member states to host Chinese

OFDI could lead to a reversal of policy positions concerning human rights in China, Tibet and Taiwan. It could lead to stronger EU support for lifting the arms embargo against China. Chinese OFDI could have an impact on domestic policies in EU countries. Competition between member states to attract investment could result in a regulatory race to the bottom (when it comes to fiscal advantages or labour policies). Chinese companies investing abroad (especially construction companies) have a tendency to bring their own labour with them, which not only does not create jobs in the host country, but can also give rise to domestic and even potentially racial tensions (Millner, 2012).

A model investment agreement has not been (yet) proposed by the EU, but its preferred policy option has been made clear. The Commission seeks to negotiate a comprehensive agreement with China that would cover both liberalization and protection of FDI which would include the following essential elements. First, to consolidate the existing BITs of the member states into a single European framework and to provide improved protection for the key assets of new technologies and intellectual propriety rights. Also, to establish a level playing field for all investors regardless of their origin whether in China or Europe and to establish commitments on corporate social responsibility, labour and environmental standards in order to safeguard rights and avoid a “race to the bottom” of investment based on the principles of openness and non-discrimination (De Gucht, 2012). Improved market access in China has been identified as the “sine qua non” for any future investment agreement from the European perspective. This would entail a major overhaul of present Chinese investment policy including reform of the role of state-owned enterprises and state controlled companies, all of which are linked with ‘economic security’ in China. Sensitive political economy issues will permeate the complex technical negotiations (Gavin, 2012).

On a bilateral level, China and the EU have established a successful dialogue mechanism in the field of trade and investment that paves way for future negotiations. It has become a platform for Europe and China to promote mutual understanding and trust, to manage conflicts and tensions and to build cooperation and consensus in a growing number of areas. The dialogue mechanism has already institutionalised the relationship through the establishment of an evolving framework which now includes annual high-level political meetings at the presidential level, vice-presidential level, joint committees which bring together officials from different EC directorates and their counterparts in the relevant Chinese ministry, as well as a number of specialised work groups which focus on sectoral issues (European Parliament, 2011).

Besides encouraging inward FDI in quantity, the EU and Member States must design policy to encourage high quality investment. The range of benefits to EU hosts flow from the competitive effect of inward FDI, directly and

indirectly raising or preserving income and deployment. Private sector investors bring entrepreneurship and sovereign wealth funds offer the potential for large-scale investment (in infrastructure). Chinese FDI is not so likely to transfer management skills and new technology. Chinese firms may be seeking to learn and this may be the key to making the EU truly distinctive and attractive as a host. Inward investment promotion is best when it recognises the specific needs of investors. Inward investors could be mentored on their business models and on encouraging larger-scale Chinese investments as well as those with greater research and development (R&D) intensity that naturally offer greater linkage and spill over potential for the EU and local economies. Investment promotion agencies throughout the Member States should be encouraged to attract exactly this kind of investment, to bring about a better and targeted fit with local economies. Helping to arrange mentoring, linkages and joint ventures for Chinese firms would embed them in the local economy and potentially lead to opportunities in China for EU firms (Clegg and Voss, 2012).

China and Europe need to develop a new dramatic regime that will build upon the existing dialogue mechanism. Dynamic regimes are favoured today as a means to provide new forms of governance to manage new problems that have emerged in a variety of fields including economic, political, environmental, social and financial fields. Dynamic regimes have transformed the traditional state-centric approach of international organisations into a multiple actor game that brings new players and new approaches to resolving international problems. This is reflected in the increasing importance of public-private partnerships as necessary for solving international problems (Gavin, 2012). A dynamic regime would create new institutional mechanisms to establish new “rule of the game” based on agreed principles, rules and procedures. Such a regime would require multiple new policy rules for the liberalisation of investment, liberalisation of capital flows, protection of investment, labour and environmental standards. This requires the creation of multiple institutions of greater complexity than traditional trade agreements (Gavin, 2012). Dynamic regimes commonly operate through Framework Agreements. A Framework agreement would provide for an initial agreement at the highest political level to establish the basic institutions for investment. The high political body would set up an organisational structure for a process of ongoing negotiations based on a work programme agreed by both parties. The work programme would aim to conclude a number of sectoral agreements to be progressively negotiated over a longer time frame under the general framework rules. The sectoral approach is considered more appropriate for investment than the aggregate country approach used in the traditional trade negotiations in the WTO (Adler and Hufbaue, 2008). Framework Agreements have emerged at the European and International levels in recent years as an increasingly favoured way to do business by private and public partners. Framework Agreements have increasingly been adopted as new models of

dynamic regimes in recent years as they allow for the creation of new institutions and organisational structures and this could provide an appropriate governance structure for new China-EU dynamic investment regime (Gavin, 2012).

## CONCLUSIONS

The EU is perceived as a stable investment environment with strong technologies, skilled labour and transparent legal environment. It is a large consumer market in itself for the goods and the services of Chinese enterprises. The ones that have invested in Europe to date are looking to invest there and to pursue the region as the sales market. These are increasingly looking to acquire certain technologies, skills and brands to make them more competitive. Chinese firms operate in a different political and economic environment than firms from other countries and bring additional political and economic risks that deserve attention: a distortion of global asset prices, unfair competition through abuse of market power or damage to consumer welfare. Political concerns are and will be the main obstacle of Chinese investment in the EU.

Expanding Chinese investment in the EU is expected to continue for the foreseeable future as a means to invest its large current account surpluses overseas and to satisfy its growing need for high technology in the home market. Against the backdrop of the Euro-zone crisis and recessionary conditions, the EU will provide increasing opportunities for acquiring a wide range of companies. The privatisation of state owned assets under austerity programmes of the debt-ridden, periphery countries of the EU will open up additional opportunities for Chinese investors.

The Chinese model of FDI in the EU differs from the standard OECD model (which has become the benchmark for foreign investment policy in EU). Supported by its substantial state wealth, Chinese investors are now acquiring assets across a broad range of commercial and financial sectors in an increasing number of EU countries. The growing number of such acquisitions (which are made through international financial markets and with very little transparency) has triggered new concerns with regard to economic security in EU. Like China protects her own economic security by maintaining strict regulations over its capital markets and restrictions on European ownership of shares in Chinese companies, there is now need for the EU to address the issues of economic security regarding Chinese investment in its own back yard. The EU should establish a review mechanism to assess potential risks from Chinese investments for its economic security. Such a mechanism would focus on the Chinese acquisition of critical technologies in strategic economic sectors as well as the status of those Chinese investors who have close links with the Chinese government.

Chinese policy makers should reduce market access restrictions for foreign business in China and address the EU-China asymmetries in this regard. China's increasing OFDI is certainly a welcome development and should enhance EU-China relations.

An EU-China bilateral investment treaty will help to address market access problems on the European side, but it will do very little to promote investment flows from China. Tailored investment promotion approaches that help Chinese investors overcome the hurdles they have in entering mature market economies are important to sustain the inflow of Chinese investment. It is critical that Europe finds a way out of its current crisis. Only a competitive EU economy can sustain foreign investment from China and other places. Securing the right policy response is crucial, given the potential for future investment flows and China's role as test case for a wider range of emerging market investors.

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# THE EUROPEAN UNION VS. BRICS OR WORKING TOGETHER? A CHALLENGE FOR RUSSIA

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***Abstract:** A few years ago everybody knew nothing about BRICS. It was just an abbreviation<sup>1</sup>. Now BRICS is playing more and more significant role in international affairs<sup>2</sup>. There is no doubt that in a few years it will become one of the most powerful global players<sup>3</sup>. In all fields: economic, political, crisis resolution, innovations. For all of us it is very important to create conditions for a better stable prosperous and fair world. How shall we act? Thinking about the past? Lusting to what is gone, basing our calculations only on what we have today or taking into consideration all new elements of today and future developments? These are political and philosophical challenges not only to Russia that considers itself as a natural bridge between the European Union and BRICS, but to the EU and BRICS as well. Positive answers to these questions constitute the core of this article.*

**Keywords:** European Union, Russia, BRICS, cooperation, competition

## 1. EUROPEAN UNION ON THE CROSSROAD

The EU is the biggest world economy. It is a wonderful normative power. The achievements of the EU are great and numerous<sup>4</sup>. It succeeded in creating a

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<sup>1</sup> In Goldman Sachs' report in 2001 "Building Better Global economic BRICs", Jim O'Neill coined the acronym BRIC for the first time by saying that Brazil, Russia, India and China could become major economies by 2030.

<sup>2</sup> First BRIC summit was held at Yekaterinburg, Russia in 2009, 2nd - at Brasilia, Brazil in 2010, 3rd - at Sanya, China in 2011, 4th - at New Delhi, India in 2012 and 5th - at Durban, South Africa on March 26-27, 2013. The latest completed the first cycle of BRICS' summits.

<sup>3</sup> BRICS: l'arrivée d'un nouvel acteur à l'échelle mondiale. L'intervention au Séminaire de travail du Comité National pour l'étude de BRICS «Le quatrième sommet de BRICS (de 28 au 29 mars 2012, New Delhi, Inde) et son bilan pour la Russie», l'Université d'Etat Lomonossov, le 19 avril 2012, Alleuropa.ru, No. 7-8(68), 2012, <http://www.alleuropa.ru/brics-l-arrivee-d-un-nouvel-acteur-a-l-echelle-mondiale>.

<sup>4</sup> For their assessment by Russian Scientists see European Union as a leading international player, «Вестник международных организаций: образование, наука, новая экономика»

framework to overcome past quarrels and hatred between European nations. It established lasting peace on the territory previously devastated by endless wars. The EU created a space of security and stability. No other nations have it at their disposal. It gave people prosperity, wealth and high quality of life. It helped to introduce into world affairs such important new topics as sustainable development, ecology and fight against impunity. It made large contributions to the development.

But nowadays there is a tendency to forget about it. The reason is very simple: the EU is in a very bad shape<sup>1</sup>. It cannot get out of economic, financial and debt crisis. Its economy is stagnant. Social tensions increase everywhere. Prospects are grim. All that is more than obvious. It's everybody knowledge. But fewer realize that the crisis is even deeper. Economic crisis is in train of transforming itself into a political one. Traditional division between East and West is replaced by the division between North and South. Such wonderful instruments like euro and European institutions, monetary union and fiscal union are damaging the Mediterranean countries' economies and create an illusion that they are profitable only to the northern block of the European Union<sup>2</sup>.

The EU is a robust supranational community. It is likely to overcome current troubles. The creation of fiscal and bank unions, the tailoring of new financial tools, upgrading of the institutional system will help the EU not only to overcome the current crisis, but to make 28 member-states much more united. If it is the case, in the long run the EU will become more efficient, powerful and influential<sup>3</sup>.

Only at this stage of the EU development serious doubts subsist that there is enough political will to implement elaborated remedies, undertaken measures could restore economic growth and individual countries succeed in countering populism, extremism and nationalism. The matter is that a too long economic crisis and evasive response to it had at least three negative consequences. The EU has

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№ 2 (24), 2009 (Main subject of the issue is "The EU place in global governance"), p. 29–47 or Alleuropa.ru, <http://www.alleuropa.ru/european-union-as-a-leading-international-player>.

<sup>1</sup> Kauffmann S. (2013) La grande panne. L'euroscpticisme fait rage a travers l'Union. Comment relancer la machine? Le Monde, 25 avril 2013., P. I; Leonard M., Torreblanca J. (2013) (European Council on Foreign Relations) Le choc des democracies. Le Monde, 25 avril 2013., p. III.

<sup>2</sup> William Pfaff (2013). Europe in Crisis II. German abandonment of the euro is now a serious possibility. The single currency experiment is failing // International Herald Tribune. The Global Edition of the New York Times, April 18, 2013. P. 6; Marcel Fratzscher (2013). Scapegoating the Germans is tempting but wrong // Financial Times, April 11, 2013. P. 9.

<sup>3</sup> "But only if Europe does manage to move towards greater integration", - President of the Economic Council to Germany's centre-right CDU party writes. - Lauk K. All the options for saving eurozone have a price tag, Europe's Newsletter, April 25, 2013. [http://www.europesworld.org/NewEnglish/Home\\_old/Article/tabid/191/ArticleType/articleview/ArticleID/22081/language/en-US/Default.aspx](http://www.europesworld.org/NewEnglish/Home_old/Article/tabid/191/ArticleType/articleview/ArticleID/22081/language/en-US/Default.aspx).

fewer resources to conserve or update existing social economic model of development, its world competitiveness decreases and there is an erosion of its soft power<sup>1</sup>.

Some neighboring countries have no choice than to aspire to the EU membership. But other world players consider the EU experience to be less and less positive. They have doubts about the EU ability to achieve announced aims. They see that old debts produce new ones. Society is devastated by unbelievable joblessness. Tolerance and solidarity appear to be not more than a myth. Poverty and social deprivation reappear everywhere.

Even more, they are afraid that European countries are ready to violate international law and the rules of the game they have established by themselves. They are of the opinion that the EU and its member-states may follow the pass to adventured and unbalanced foreign policy. They remember too well that in the past the European countries started wars of different kinds to resolve their internal problems and relinquish the burden of these problems on the shoulders of other nations.

It means that the others do not trust the EU, the way they used to through the 80-90<sup>th</sup> of the XX century. They do not trust its internal policies of social and interstate solidarity. They do not trust the member states model of social and economic development. They do not trust the EU foreign policy. But trust was the key factor of the Union attractiveness, power and influence. The EU critically needs to restore it.

To do that the EU and its member states must envisage an opportunity of following much more realistic internal and external policies, opening internal markets for external competition and turning towards partnership and cooperation with other nations. There is nothing new in such an approach. It was an essential feature of the European project during all the Cold war years. The EU tried to lead by positive examples, involving everybody in elaborating essential pieces of contemporary international law. Unilateral actions, even when they are explained by political necessities lead to nowhere. Only universal agreements and understandings create conditions for meeting challenges of today world and establishing fair, balanced and much more equal world economy.

From such a new-old approach will benefit people of the EU and BRICS countries. All of them are ready and willing to play in accordance with the existing rules of the game. They aspire for the predominance of law in international affairs. For them international stability, peace and cooperation are of tremendous importance. Only if stability, peace and cooperation are in place may they achieve

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<sup>1</sup> Thorough analysis of all these consequences from Russian perspective may be found in Alleuropa.ru, No. 1(73), 2013. Editorial, <http://www.alleuropa.ru/vishel-73-y-nomer-zhurnala-vsya-evropa>.

their aims of creating in their respective countries modern socially oriented and efficient societies for everybody.

## 2. BRICS

Politicians, experts and journalist from the EU do not believe in BRICS<sup>1</sup>. They remember that only few years ago it was just an acronym and not more than that. They are of the opinion that BRICS has no future because it comprises too different countries, promoting opposite interests<sup>2</sup>. They created a myth that internal problems of BRICS countries are tremendously deep and it will take them years and years to catch up with the developed nations. They try to persuade each other that there is a need to disrupt BRICS, to rule as previously - oppressing and dividing. They wrongly consider that it is feasible. And they do not realize that all these clichés belong to the past or are phantoms of their imagination.

True, BRICS is one of the most representative international entities. It comprises leaders among countries of major continents. BRICS accounts for over 40% of the world's population, 18% of its market-exchange GDP (about 27% in purchasing-power parity), 15% of world trade and two-fifths of its foreign currency reserves. It is a wonderful example of unity in diversity. The most old and sophisticated cultures are represented in and by this international entity. It is an example at the same time of friendly coexistence of different political systems and traditions.

BRICS is one of the most dynamic economic groupings. Its rates of economic growth are significantly higher than those of the EU and its state-members. Since 2000, BRICS have contributed about one-half the increase in global output. Last year BRICS countries made 60% contribution to the world growth. They served as a new locomotive for world development instead of developed nations stagnant economies. Their successes in peaceful transformation, industrialization, urbanization, modernization are well known. Of course the major part of these achievements is due to China, but other four are following its path. They are nearly as dynamic as this third biggest world economy (after the EU and the USA).

BRICS sticks to a very proud and noble vision of interstate relations. It has no intention and never imposes its vision on other nations. It has no hegemonic intentions. It supports the UN and other universal and multilateral forums. It withstands against interference in internal affairs of sovereign nations and

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<sup>1</sup> For arguments and counterarguments see Post-BRICS Reality // Alleuropa.ru, No. 2(63), 2012, <http://www.alleuropa.ru/post-brics-reality-1>.

<sup>2</sup> Nye J. (2013) (Harvard University) BRICS without Mortar // Project-syndicate, April 3, 2013; Nye J. Incompatibility Hinders BRICS Bloc // Taipei Times, April 8, 2013. [http://belfercenter.ksg.harvard.edu/publication/22966/incompatibility\\_hinders\\_brics\\_bloc.html](http://belfercenter.ksg.harvard.edu/publication/22966/incompatibility_hinders_brics_bloc.html).

temptations to solve regional conflicts by military or other coercive means. For its participants true international cooperation constitutes the corn stone of contemporary and future world order which they would like to make more stable, equal, fair and predictable.

BRICS is a fast evolving entity. It is entirely informal. It has no bureaucratic structures. Its mission is to respond to the aspirations of its participants. That's why each year, each month new frames of cooperation appear. New dialogues are launched. Among them there are those of ministers (or other responsible representatives) of finance, security, justice, economic development, culture, education, sciences, and etc. During the South Africa recent summit academic and business councils were established. The creation of large international bank for development and a foundation to provide massive financial aid are under consideration.

BRICS world influence grows from one meeting to another. It is doomed to increase in future as well. Its participants manage to overcome their differences and to take common positions. Each of them brings to the common agenda issues that are of particular interest to them, transforming these issues into those of everybody's concern. Examples are numerous. In the framework of the South Africa summit they expressed their joint position on climate change, agreed to promote sustainable development, extended support to the Russian Federation leadership in the G20. At the same time there are issues they pay more attention than to any others. One of them is a reform of the IMF and adjustment of the world financial system.

### **3. TWO SCENARIOS OF RELATIONSHIP BETWEEN THE EU AND BRICS**

In a number of analytical reports produced by national and international think tanks upon request of different governments and supranational structures a wide range of such scenarios are advanced and analyzed. In reality there are only two worth considering: that of competition and another one of cooperation. We exclude those of confrontation or of integration as entirely improbable taking into consideration nowadays international context.

Let's start their presentation by considering the main features of the first of them. According to it, the relationship between the EU and BRICS evolves as a competition in all spheres of the state, business and society activities and development. They compete for resources trying to acquire exclusive access to them and their ownership worldwide. They construe their export and import trade policies to promote in a unilateral way their national and group interests to the detriment of others. They struggle for influence or even dominance everywhere in Asia, Africa and Latin America and beyond as well as in world forums and international organizations. They try to rebuild the existing world order following

their vision of what is feasible and better for them and only them. And they promote their model of economic, social, political and cultural development as only one that is viable and successful.

This competition as we see is multifaceted. It is likely to take any kind of forms and be dependent essentially on specific features related to this or that type of activity. The competition may be very fierce or less, accompanied with violation of international law rules, previous engagements and commitments or not. But for the appraisal of such a scenario all these details do not matter so much.

There are only two parameters which are of tremendous importance. Only they must forge our opinion. To make our final judgment we may rely entirely upon them. They are as follows. First of all we need to be frank to ourselves and to answer fairly to each other whether such a relationship is for the common good and is able to serve individual and group interests in a proper way. Secondly we must understand if the level of probability that the scenario we discuss become reality is high or low.

It seems that there is no need to make elaborate calculations to get an answer to the first question. It is obvious that all azimuth competition between the EU and BRICS will be detrimental to any kind of progress in the world developments. A waste of time, force and resources deviated to unworthy purposes will be enormous. Achievement of agreements and solutions to increasing number of local, regional and global problems will become much more difficult and problematic. Trust and a culture of mutual concessions will disappear from international relations. Our Earth will be transformed in a place where it is less and less comfortable to live.

It may appear that an answer to the second question is not as obvious as for the first one, but it is not the case. Let's not dupe ourselves. Of course the probability that the competition scenario will become a fact of our life is very high. Even now some of its elements could be deducted here and there<sup>1</sup>. In such prestigious newspapers as Financial Times, International Herald Tribune, Le Monde and etc. these elements are thoroughly described in a large number of articles. A lot of attention in them is paid to the monetary war between the EU, USA, China and Japan; the USA and the EU trying to preserve free market access to resources and China and Russia seeking to rely on long-lasting 30 to 40 years contracts; controversies between BRICS and Western countries over the USA and the EU colonial type interventions in Iraq, Libya, Syria and many other places to impose democracy and the rule of law.

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<sup>1</sup> Parteneriado entre Rusia y la EU para la modernizacion y colaboracion bilateral con sus Estados-miembros (2012) / Rusia y Espana en el mundo multipolar. Moscow, 2012 or Alleuropa.ru, No. 12(61), 2011, <http://www.alleuropa.ru/parteneriado-entre-rusia-y-la-ue-para-la-modernizacion-y-colaboracion-bilateral-con-sus-estados-miembros-1>.

Let's now proceed with analysis of the second scenario. According to it, the EU and BRICS behave like real partners, in deeds and not only in words. They consider themselves as belonging to one and the same system of entities which means that when wrong doings are committed to one of them they are committed to everybody, and if something is profitable to one of them it brings added value to both. It is a kind of collective security and prosperity system. In practical terms it means that they work hand in hand to achieve growth and development everywhere and to fight common enemies including terrorism, separatism, organized crime, drug traffic, dirty money and etc. They do their best to agree on common international rules, their identical understanding and implementation. Different mechanisms of international disputes smooth and fair settlement are enhanced and honored.

Is it for the benefit of all countries, all nations, and all regions of the world? Is it in compliance with the bravest expectations of intellectuals and common people? Is it what all of us could support with both hands? The answer is "yes".

The problem is that nobody believes that all these ideas would become truth one day. There are no signs at all for believing that such kind of scenario may prevail. As far as declarations of good intentions are concerned, wonderful words about cooperation, partnership, strategic partnership, special relations and so on their number is enormous, but they are not more than words. And in the world of politics only deeds count.

Summing up we may say that partnership scenario is good and competition scenario is bad, that we need one partnership and not the other. But the fact is that the competition scenario is much more realistic. It is a pity, it is a tragedy, but it is like that.

If it is the case and we have no proofs that it can be otherwise than the conclusion and at the same time an advice to politicians of all the countries and groups of countries involved should be as follows. Please put an end to the policies you are implementing now – they have no future. They are detrimental to everything we believe in. Do your outmost to change the existing pattern of international relations. Try to act as if the partnership scenario is feasible. There is no other way. It is the only one that will lead to peace, security and prosperity.

#### **4. RUSSIA AS A BRIDGE BETWEEN THE EU AND BRICS**

Russia is a key world player who may promote the partnership scenario. The scenario corresponds to the interests of the Russian people. Russia is in a position to serve as a facilitator of this scenario. It may serve as a viable bridge between the EU and BRICS.

Unfortunately, the EU does not trust Russia. But there are no reasons for that. The EU talked itself in blaming Russia for disregarding common European values. The reality is quite different. The EU and Russia had common history. They

are of the same culture and religion. They are very close to each other. They have the same dreams and beliefs. They must be together. The moment the EU overcomes its internal difficulties and acknowledges that Russia is not the Soviet Union, everything could change.

Russia invented BRICS. When E. Primakov was the head of the Russian government he explained to the West that the lack of confidence in Russia pushes it to create an alternative to the western dominance. Russia made a proposal to China and India to establish a new framework for cooperation. Russia is a magnet that brings together all the other BRICS members. Russia helps them overcome internal disputes and controversies.

Russia is very special. It belongs at the same time to the West and to the East. This country experienced everything you can imagine. Revolutions and counter-revolutions, ups and down of enormous magnitude, from being one of the superpowers to an entirely unsustainable entity. And back to one of the most influential world players.

Let's agree that we need to make our outmost to follow the partnership scenario. Let's agree that we may succeed. Than the best way to act in this direction is to use the unique position of Russia and invite it to bring together the EU and BRICS.

## **CONCLUSION: COMMON EU AND BRICS AGENDA**

Nowadays Russia leads G20. Next years it will lead other key international forum. It has influence and know-how to convene an EU-BRICS summit as an unavoidable and the most effective tool to change outdated attitudes and to start creating an entirely new relationship between these two entities.

Different national and international think tanks made studies suggesting a tentative agenda for this summit that may take place somewhere in 2014 or 2015. Such an agenda must be well prepared and thoroughly discussed to persuade everybody that from the very beginning leaders of the EU and BRICS achieve exceptional results. But some topics are unavoidable.

The EU and BRICS must unite their efforts in preventing food and energy crisis, in promoting development targets and combatting poverty. They achieved these aims for themselves. They are in a position to do the same for the benefit of the mankind as a whole.

The EU and BRICS must create a common front to fight terrorism, separatism, organized crime and etc. It is a precondition of a success. If these two entities agree to overcome their differences, to have the same approaches towards what is to be done and in what way, havens of impunity will disappear and they will prevail without difficulties over common enemies.

One of the explanations why so many international conflicts persist is that conflicting parties have political, financial and military support from abroad.

Without such a support it would have been much easier to find solutions and to work for lasting peace. Even if first elements of the partnership scenario start to appear an unprecedented pressure could be exerted on all conflicting parties to stop hostilities and to agree on terms of reconciliation. Let's try. It's the best way to proceed.

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## CHALLENGES OF THE FUTURE – THE EUROPEAN UNION VS. THE EURASIAN UNION?

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**Abstract:** *From October 2011, when former Russian Prime Minister Vladimir Putin brought to attention the plan of creating a Eurasian union, many politicians, analysts and researchers dealing with matters of the ex-Soviet space regarded this as another initiative of re-Sovietizing the Russian Federation and Central Asia as well. Despite disbelief and international critics, the Eurasian Union’s mechanisms began to be established even at the end of 2011 and early 2012. The proposed year for this endeavour to become a reality and an important global actor is 2015. Until then the subject of who is to be a member of this political and economic union seems to gain a particular importance for its main promoter, Russia. In order to achieve its objectives, which refer also to maintaining and extending its influence all over the former Soviet Union, the Russian Federation is forced to deal with the European Union and its enlargement policy towards the East. This aspect might also presume the counteracting of the European Union’s initiatives within the Eastern Europe, namely the Eastern Partnership, especially considering the fact that during a roundtable in Moscow in November 2011 it was indicated that the Eurasian Union should include countries like Finland, Hungary, the Czech Republic and Bulgaria.*

**Keywords:** European Union, Eurasian Union, Russian Federation, challenge, Eastern Partnership.

### INTRODUCTION

The accomplishment of the Eurasian Union from Scotland to New Zealand seems to be one of the strategic tasks of President Vladimir Putin, who made quite a number of statements in which he mentioned this aspect. He is regarded as the only man capable of bringing stability and prosperity to Russia. The creation of a Eurasian Union in order to counterbalance the influence of the Northern Atlantic Treaty Organisation (NATO), the United States of America and the European Union has important economic, military and political stakes.

## 1. THE EURASIAN UNION – HISTORICAL ROOTS

At the end of 2011, the entire world found out with greater or lesser surprise that Vladimir Putin, President of the Russian Federation, was determined to achieve the plan of creating a Eurasian Union. It was also said that Putin retook an older idea first expressed by Nursultan Nazarbayev, President of Kazakhstan. During a speech delivered at a Moscow university in May 1994, less than three years after the dissolution of the Soviet Union, he mentioned the concept of a Eurasian Union. Yet, as already shown by different specialists (Chaudet, Parmentier and Pélopidas, 2009, pp. 39-48), the idea was not new at all – it derived from the older concepts that were discussed and developed during the interwar period by young Russian emigrants like geographer Piotr Savitski (1895-1968), theologian Georgi Florovski (1893-1979), ethnologist Nikolai Trubetskoy (1890-1938), linguist Roman Osipovich Jakobson (1896-1982), historian Georgi Vernadsky (1887-1973), etc. (Chaudet, Parmentier and Pélopidas, 2009, p. 44). Following the Revolution in 1917, most of these intellectuals that contributed to the articulation of the Eurasianist idea regarded Russia like a world apart, belonging neither to Europe nor to Asia. They practically associated the term of geographical Eurasia (the whole of Europe and Asia) to this idea. This was the starting point of the intellectual genesis of Eurasianism. The main debate evolved around one issue: how much of Europe is in Russia and how much of Russia is in Europe? Nonetheless, one must bear in mind that the very notion of Eurasianism was initially regarded as a “Third Way” by the Russian emigration, “neither Tsarist nor socialist nor capitalist but simply the best to redefine the frontiers of collective identity” (Chaudet, Parmentier and Pélopidas, 2009, p. 45).

This way of thinking, quite intimately connected even then with the theological level and with mystic elements that represented a true constant within the Russian mentality of the last two centuries might offer an interesting perspective regarding the perpetuity of an idea: the dominance of Europe and, if possible, of the entire world. Almost any major intellectual and political movement that originated in or from the Russian space during the 19<sup>th</sup> and 20<sup>th</sup> centuries and approached the relation between Russia and the rest of the world gave Russia a very special place – always in opposition to the Western powers, always trying to fulfil a providential mission (“Mother” of all the Slavs, The Third Rome, The True Heartland of Europe, etc.) (Copilaş, 2009, pp. 65-69; Sillion, 2004, *passim*; Laats, 2009, pp. 98-113). Whether we think at Slavophilism, Pan-Slavism, Internationalism (the official ideology of the newborn Communist Russia under Vladimir Ilyich Lenin), Eurasianism and even the Communist ideology promoted by Stalin and his followers, we can only notice that all these represent various expressions of the Russian tendency of dominance over an increasingly larger space.

Territorial plans came almost as a natural consequence, and from the 18<sup>th</sup> century on, the borders of the Russian state were shifting periodically. At the middle of the 19<sup>th</sup> century, the Russian Empire had territories on three continents – Europe, Asia and Northern America. In addition to this extraordinary territorial increase, one must not forget the projection of an image representing a God-chosen country, meant to impose the true faith and a superior civilization to the world (during the Tsarist regime) or the New Man and the New Communist Society (during the Communist regime). Nevertheless, Russia had already become a European power during the 18<sup>th</sup> century, after defeating Sweden and King Charles XII. Almost a century later, after its significant contribution to the defeat of Napoleon I, Russia began to formulate its claims as a universal power (Cliveti, 2010, pp. 61, 231). One of the results of all the intellectual and political currents previously mentioned was the general belief within the Russian elites and not only in the providential role which Russia was supposed to have. For instance, right before the Second World War a poet named Pavel Davidovich Kogan wrote a poem which contains these verses: “I am a patriot. I love Russian air and Russian soil. / But we will reach the Ganges River, / and we will die in fights, / to make our Motherland shine / from Japan to England”.

Historically speaking, it was not for the first time when Russia had claimed its dominance over such a large area. Taking into consideration the theological and mystic aspects already mentioned, one must say that the first signs of these tendencies can be identified at the beginning of the 19<sup>th</sup> century, during the wars against Napoleon I. In 1814-1815, after defeating the French Emperor, Tsar Alexander I proved to be more than a simple winner. He tried to impose his ideas regarding a united Europe, a European federation or even a United Christian Nation in Europe. It was more like a mystic approach, as already noticed by different researchers of the phenomenon (Cliveti, 2009, pp. 90-91; Manoilov, 2010, *passim*; Bodnár, 2006, p. 100), yet it could easily be linked with certain aspects specific to the realities of our times. Even now, representatives like Aleksandr Dugin, one of the most active promoters of the Eurasian theory and “The Prophet of the New Russian Empire” (Liverant, 2009), as known in the Western world, consider that Russia should militate for a union of the Slav peoples already united through traditions, linguistic analogies and Orthodoxy as a counter-power against the Occident, especially the United States of America and their allies.

Nevertheless, one must bear in mind the fact that the Eurasian / Neo-Eurasian idea enforces another way of dominance for the use of Russia, which is seen like the main element of connection between the civilizations from East and West – “The Eurasianist trend of the Russian geopolitical school helps to justify Russia’s historically developed imperial ambitions of dominating the centre of the geographical continent, Eurasia” (Ismailov, Papava, 2010, p. 21). Practically, the essence of this Eurasianism resides in the fact that, by occupying the whole

central space between Asia and Europe, Russia was providentially settled at the intersection of two great worlds, East and West, representing a special social and cultural universe which is meant to unite both sides.

## **2. BORDERS AND MEMBERS OF THE EURASIAN UNION – PRESENT SITUATION AND PRESUMED FUTURE**

As already mentioned, the Russian territorial projection knew an extraordinary development. The continuous expansion registered by the Russian state during the 18<sup>th</sup> and 19<sup>th</sup> centuries had an important impact both for the Russian elites and the people. This is why, despite any strong social and political convulsions in the 19<sup>th</sup> and 20<sup>th</sup> centuries, the idea that Russia was meant to have a special destiny and finally lead the world was very popular in every social class and intellectual movement. The idea was practically assumed by the Communists, who substituted the religious and mystic part of the Russian providential mission with the Bolshevik utopia of the New Man and the New Society. Same content, different shape... As noticed within different works, most of the representatives of the Eurasianist idea gradually moved towards Bolshevism, which had begun to be seen “as a form of national Communism” (Chaudet, Parmentier and Pélopidas, 2009, p. 46). A sort of symbiosis between Eurasianism and the Soviet Union slowly took place during the late '20s and increased its power as the connections between Russia and Asia became even stronger after the Bolshevik Revolution, an important psychological moment being the famous Baku Congress in 1924 (Chaudet, Parmentier and Pélopidas, 2009, p. 46). Following the Second World War, the Eurasianism entered a period of latency; the idea and the perspectives involved were “rediscovered” and promoted during the late '80s, especially thanks to the works of Lev Nikolayevich Gumilev, an ethnologist and anthropologist who encountered and corresponded for many years with Piotr Savitski, the exiled geographer. Lev Gumilev established the borders of the Eurasian mega-continent by analyzing geographical and weather conditions. According to his opinion, Eurasia comprises three regions: Upper Asia (including here Mongolia, Dzungaria, Tyva and Trans-Baikal), the Southern Region (Kazakhstan and Middle Asia), and the Western Region (which includes Eastern Europe). This “reborn” Eurasian idea was given the name of “Neo-Eurasianism”.

It is naturally understood that the question of territories involved by the Neo-Eurasianist idea still stands. At the moment, the declared purpose of the Neo-Eurasianist promoters is to create a huge economic space, with a common market of more than 200 million consumers, the adoption of a common economic legislation, and the insurance of the free circulation of capital, services and labour force (Drăghici, 2013). Yet, what would be the exact extent of this economic space? At the end of 2011, a roundtable was organised in Moscow by

the United Russia party, an opportunity for Vladimir Putin (then still Prime Minister of Russia) to outline his geopolitical ambitions and projections. The subject of the roundtable was the constitution of the Eurasian Union primarily as an economic organisation. According to Russian political scientists like Dmitry Orlov, the projected Union should bring together, apart from the countries of the former Soviet Union, nations that are historically and culturally close to Russia and are “loyal to Russia’s interests”; in this context, Orlov indicated states like Finland, the Czech Republic, Hungary, and Bulgaria in Europe, Mongolia and Vietnam in Asia, and quite surprisingly for many, Cuba and Venezuela in Latin America (*Moscow fleshes out “Eurasian Union” plans*, 2011).

What is certain for now is that only two former Soviet republics have joined the plan – Kazakhstan and Belarus; in January 2010 the Customs Union between the Russian Federation, Kazakhstan and Belarus was founded. After this first step, the end of 2011 brought to attention the Eurasian Union, which, as different Russian experts stated, should be ideally conceived without the mistakes made when the European Union was created (*Tajikistan and Kyrgyzstan ready to join Customs Union*, 2012). In December 2012, Tajikistan and Kyrgyzstan have also announced their intention of entering the Customs Union (*Tajikistan and Kyrgyzstan ready to join Customs Union*, 2012). As the situation is not yet cleared with other former Soviet republics, this seems to be the core of the desired Eurasian organisation.

However, the intentions of the Russian President Vladimir Putin are not to be neglected. On 19<sup>th</sup> November 2011 Russia, Kazakhstan, and Belarus had already founded a mixed commission in order to accomplish the task of creating the Eurasian Union until 2015. On 1<sup>st</sup> January 2012 the Common Economic Space came into force. On 1<sup>st</sup> February the same year the Eurasian Economic Commission, a permanent body of Customs Union and of the Common Economic Space, became operational. 2013 and 2014 might be the decisive years for the creation of the Eurasian Union. Already at the beginning of 2013, during the Gaidar Forum that took place in Moscow, Prime Minister Dmitri Medvedev reaffirmed the objectives of shaping Eurasia as a mega-region of the world and a connection space between the Atlantic and the Pacific Oceans. At the same event there were discussions regarding the necessity of cooperation between the newly formulated organism and the European Union, in order to create a commission which should include representatives of both the Eurasian Economic Commission and the European Union. One of the main issues in the debate was the accomplishment of a common economic space from Scotland to New Zealand, an enormous continental market (Drăghici, 2013).

### **3. BUILDING THE EURASIAN UNION – INTERNATIONAL REACTIONS**

The creation of the Eurasian Union and the first measures that were taken provoked quite a wide range of reactions in the international arena. Major actors like the United States of America and the European Union immediately appreciated that the nascent of the Eurasian community represents a reborn of the Soviet empire in disguise (Stares, 2012). The American Secretary of State Hillary Clinton clearly described the Russian efforts as “a move to re-Sovietize the region” (the former Soviet space). “It’s not going to be called that. It’s going to be called a customs union, it will be called Eurasian Union and all of that. But let’s make no mistake about it. We know what the goal is and we are trying to figure out effective ways to slow down or prevent it” (Morrissey, 2012; Bridge, 2012). Needless say that the statement of the American official provoked a harsh response from Kremlin. President Putin’s spokesman, Dmitry Peskov, showed that Hillary Clinton’s comments simply betray a lack of understanding of the true nature of the processes and changes that take place within the former Soviet Union (Bridge, 2012).

In its turn, the European Union regarded in a wariness manner the Russian efforts to articulate a Eurasian Union. As the Eurasian integration process has become an important issue in Russian foreign policy and it is expected to remain a top priority over the next few years, the European Union has no choice but to carefully analyze the situation in order to make a proper decision towards the evolving realities in the East. Several conferences and international meetings were organised in an attempt to define the integration processes in the post-Soviet space and their impact on the relations between the European Union and the Russian Federation (e.g. Berlin, 14-15 June 2012; Brussels, 23 October 2012; etc.).

On the other hand, Russia seems to have improved relations with China, a fact demonstrated by the last BRICS summit held in March 2013 in Durban, South Africa (BRICS: Brazil, Russia, India, China, South Africa). Various analysts and commentators spoke about a true “Rise of Sinorussia”, a force “capable of dominating Eurasia and projecting its influence over the entire globe” (*The Rise of Sinorussia And Its Geopolitical Consequences – Analysis*, 2013). Territorial disputes between the two powers were gradually and peacefully settled during the last two decades, despite some still disturbing aspects for the Russian Federation. A number of economic deals were signed and put to practice between Russian and Chinese companies and, so far, China has not necessarily objected to Vladimir Putin’s Eurasian plan, even though different voices within Russia claimed that the Eurasian economic union might represent an effective barrier against China’s pressure in Central Asia (Krichevsky, 2011).

The reactions among the former members of the Soviet Union were rather contradictory. While Kazakhstan and Belarus promptly confirmed their adhesion to the Eurasian plan, other countries like Ukraine did not give the answer that

Kremlin wanted. Some results appeared at the end of 2012, when Tajikistan and Kyrgyzstan decided to join the Customs Union, as previously mentioned.

#### **4. THE EASTERN PARTNERSHIP, RUSSIA AND THE EURASIAN UNION – ACTION AND REACTION?**

It is already a common place that the European Union is regarded as an emerging superpower by different scholars, diplomats and politicians (Guttman, 2001, *passim*), the 21<sup>st</sup> century being considered as the century in which this aspect has to become reality. The European Union's primary mechanisms have been settled in the '50s; despite frequent tensions and discontents, the cooperation between the member states works properly in many regards. Newcomers like Poland, Hungary, Cyprus, Malta, the Czech Republic, Slovakia, Slovenia, the Baltic countries (2004) and finally Bulgaria and Romania (2007) found their place within the Union. Even if there are still many things to be achieved, the European Union presents itself as a well-articulated organism, a credible and strong economic and political voice.

In the context of the extending process, which seems to be still far from being concluded, the European Union gave a particular importance to the Eastern part of the continent. Within the last years, the European Union enriched its relations with some of the states in the area (Armenia, Azerbaijan, Belarus, Georgia, Republic of Moldova and Ukraine) by concluding the Eastern Partnership in 2009. This came as a necessity after realizing that the events in the countries in Eastern Europe and the Southern Caucasus might affect the European Union. The Partnership was also seen as a possibility of harmonizing the national legislations with the requirements of the European Union.

In 2008 when the Eastern Partnership was established, Russia gave voice to its discontent, accusing the European Union of expanding its "sphere of influence". Russian officials often denied the utility of this mechanism. It is not exaggerated to consider that Vladimir Putin's initiative of creating the Eurasian Union might be also regarded as a reaction against the extending process of the European Union, provoking Brussels' concern: "While officially supportive of all regional integration processes around the world, the EU is clearly wary of this supranational upstart" (Stares, 2012). At the same time, despite friendly and comforting statements of the Russian leaders, the simple fact that countries like Finland, Hungary, the Czech Republic, and Bulgaria were named as possible members of the Eurasian Union poses a series of questions. The accession of Belarus in the Customs Union, followed by the agreement signed by the Presidents of Russia, Kazakhstan and Belarus (on 18<sup>th</sup> November 2011) practically knocked out Belarus from the Eastern Partnership. The strategic interests of the Russian Federation demand further actions in order to properly achieve the

proposed objectives and to prevent the integration of the remaining countries of the Eastern Partnership in the European Union. Quite recently, at the beginning of April 2013, the central administration of so-called Transnistrian Republic began to develop a joint project with Russia in order to implement a process of integration of the separatist region within the Eurasian Union – a media centre was opened in Tiraspol, in the presence of Dmitry Rogozin, Deputy Prime Minister of the Russian Federation in charge of defence and space industry. Igor Shornikov, Vice Minister of Foreign Affairs of the self-proclaimed Transnistrian Republic, declared that “the centre is a part of complex information process” and all those who are willing to prepare various materials regarding the Eurasian integration are welcomed there (Joița, 2013).

Furthermore, it seems that Moscow is no longer disposed to accept an increasing European influence within the former Soviet space. As Ukraine and the Republic of Moldova are the most advanced members of the Eastern Partnership, it would only be logical for the Russian leaders to maintain a state of uncertainty here, a thing which actually exists. Both Ukraine and the Republic of Moldova must face the fact that even though they made great progress and accomplished most of their tasks in relation with the European Union, the communist past still has a certain influence. In addition to this, there is a strong and numerous Russian minority, especially in Ukraine, which has its own plans and perspectives, not necessarily orientated towards the European Union.

## CONCLUSIONS

The result of the Russian efforts to create a supra-state and supra-national organism like the Eurasian Union remains yet to be seen. However, the beginning was made, but there is still a long way to go. The attempt of creating such a mega-structure, immediately considered as a move of re-Sovietizing the space once mastered by the former Soviet Union, is the expression of another plan which aims at the Russian supremacy.

The European Union and the United States of America must find their way in dealing with the new Union if this one will become reality. While the American attitude was clearly stated, the European Union might find itself in a difficult position as it has to closely cooperate with Russia in different fields and, at the same time, should continue the extending policy in the Eastern part of the continent. The Eastern Partnership, already damaged by the loss of Belarus, has a rather blurry future. Naming possible members of the Eurasian Union like Hungary, Bulgaria and the Czech Republic, Russia could easily put a supplementary pressure on Ukraine, a country apparently divided between the European and Eurasian options. It might also be regarded as another type of warning against further extension of the European Union. Nevertheless, the fact that Russia has drawn Belarus from the Eastern Partnership and continues to

support, one way or another, the political regime in Tiraspol shows that the leaders in Kremlin are not willing to abandon the positions they still hold at the borders of their former empire. One thing is sure – the Russian Federation will not easily accept a new extension of the European Union within the space that sometimes was under its control.

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## THE EASTERN FRONTIER SECURITY CASE STUDY: ROMANIA-RUSSIA

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**Abstract:** *The EU is among the very few international organizations that can be easily explained by a supra-nationalist approach, in terms of common good principles or transfer of sovereignty. But we cannot exclude the fact that the Council of the EU still has the most important prerogatives in term of security and defence policies (hard politics) or the fact that states still have certain different national interests and preferences regarding specific subjects. In foreign policy and security terms the immediate neighbourhood is of special attention for every rational actor. In the case of the Russian Federation, the EU has proven to be more like an intergovernmental organization, due to the fact that the Europeans have different approaches vis-a-vis their Eastern neighbour. The present paper aims to develop a glibly approach over different policies pursued by Moscow with special attention to Russia's relationship with Romania, as the latter is a frontier state of the EU bordering Russia's "near abroad" territories. Further reasons to emphasize this relationship are that Romania is a riparian state in the Black Sea, having the possibility to become energetically independent and having already developed a strategic partnership with Moldova following the European soft power strategy.*

**Keywords:** Romania, Russia, the EU, Black Sea, NATO, energy

### INTRODUCTION

After the disbandment of USSR, both Romania and Russia had to reposition themselves in the new architectural framework, in which the Cold War was over and the USA became the sole power of the international system. 1991 was a crucial year because it changed the geopolitical perspectives for all Eastern countries: the Warsaw Pact and the Council on Mutual Economic Assistance (COMECON/CMEA), the two multilateral pillars of the Eastern Bloc which have been disbanded. Additionally, the Russian troops were withdrawn from the East Central Europe and approximately all the Eastern states have successfully negotiated the necessary treaties with the official successor of the USSR, the Russian Federation (Adamski et al, 2013, p.4)

In terms of security, the strategic orientation of some Eastern states has been clearly established. Countries like Estonia, Lithuania, Latvia, Poland and Romania

reformed their national interest and therefore their strategies and foreign policy concepts and tried to integrate in the Western structures of power, namely NATO and the EU (Adamski et al, 2013, pp.1-4). Other states continued their approach with the Russian Federation like: Belarus or Armenia with which Moscow has developed over the years strategic partnerships. Because of the foreign politics and the nature of the international interaction, the geopolitical position and the historical background of every state were different. In the cases of Moldova and Ukraine, the choices tended to be more complicated, as they had to balance between the East and the West in order to ensure their national security.

Although geopolitically the Eastern states became NATO allies and EU Member states, in terms of economy, the relations with the Eastern regional power took a positive trend as “*the ECE exports to Russia grew between 2004 and 2011 almost fivefold, from 6.6 billion USD to 30.5 billion, while imports tripled over the same period from 21 billion USD to 66 billion.*” (Adamski et al, 2013, p.5).

In political terms, the relationship between the Eastern countries and Russia were and still are far from being stabilized or efficient in terms of costs and benefits. In this aspect, we cannot separate the European integration from the Euro-Atlantic one, as they both influenced the relationship between Russia and the Eastern states. Therefore, the present analysis will try to bring a realistic image regarding their relationship, taking into account NATO as well, but with the primary focus on the European Union.

The fact that the Baltic States, Poland and Romania have joined NATO is of high interest for Moscow in negative terms, as it finds itself on an antagonist position vis-à-vis the Euro-Atlantic organization. For Kremlin the enlargement of NATO meant and still means the intrusion in what it is called Russia’s “near abroad”. An example in this sense can be the 2008 Georgian War, which was seen as a punishment for Tbilisi, after the Bucharest Summit (April 2008), when Ukraine and Georgia were two important subjects for NATO integration. Although they were not officially invited to adhere to NATO, in the eyes of Moscow this episode represented a threat to its national interests (Friedman, 2008). In the case of Ukraine the message coming from the East was clear: it could ‘*aim nuclear missiles at Ukraine if its neighbour and former fraternal republic in the Soviet Union joins the NATO alliance and hosts elements of a missile defence system proposed by the Bush administration*’ (Finn, 2008). In Georgia’s case the response was already mentioned, the Georgian war when Russia’s troops entered South Ossetia on August the 8<sup>th</sup>. All of these reactions had the expected results; they alienated the two former soviet states from the Western organisations (Friedman, 2008). As concerns the integration in the EU, the Russian Federation tried to balance its power by creating the Eurasian Community. Other sensitive issues between the afore-mentioned states are: the European policies regarding its neighbourhood, the Transnistrian conflict, the objectives of the Eastern Partnership or “*the open-door policy of NATO and the*

*prospect of integration of some post-Soviet states into Euro-Atlantic institutions”* (Adamski et al, 2013, p.7).

The present paper’s hypothesis is constructed around the bilateral relationship between Romania and the Russian Federation, as the first is a member of the EU and the Union itself is one of the main partners for the latter. The relevance of the subject is especially important for the security of the Romanian state, as Moscow is a regional power with global capabilities in terms of hard security and with global aspiration since Putin came into power in 2000. The relationship between the two is a possible both security or insecurity generator at regional level, given the high interest topics like: the relationship between Romania and Moldova, the Transnistrian conflict and its influence over the security of the Eastern border (both in the case of NATO and the EU), energy security in Europe and the new natural gas reserves discovered in the Black Sea, the European energy projects (Nabucco) and the Russian ones (South Stream), and the anti-ballistic missile defence system.

From the methodological point of view, the present analysis aims to develop a glibly approach, making use of direct sources (strategies, speeches, treaties, interviews) and indirect (work content analysis of key theorists in the field). There will be also used statistical information and dates regarding official visits, number of media appearances (quantitative research) and speech analysis (qualitative research), as well as conceptual references.

## **1. ROMANIA AND RUSSIA BEFORE THE EUROPEAN AND EURO-ATLANTIC INTEGRATION**

As aforementioned, the years following the USSR’s disbandment meant a new security framework for all Eastern states, including Romania and Russia. Although it was the official successor of the Soviet Union, the Russian Federation lacked the necessary capabilities to regain its former status, that of a super power. Moreover, given the internal changes, the transition period and the lack of trust coming from the West, Moscow started its campaign to regain its regional power status, after 2000 when today’s president, Vladimir Putin, came into power and changed the future prospects for Russia declaring that: “*Russia is a country with a history that stretches for over 1000 years and practically always used the privilege of having an independent foreign policy. We have no intention in changing that*” (Rasizade, 2008, p.17). Since then, the authorities from Kremlin have constructed an image of a state that is still a hard power, with numerous nuclear heads and traditional weapons and that continued to find itself on an antagonistic position vis-a-vis the West (especially NATO).

Regarding the bilateral relationship between Romania and the USSR, in 1991, after several rounds of discussion, the parties managed to sign the "Treaty of

Friendship and Cooperation between Bucharest and the former Soviet giant, but it” *took place on a purely declarative level*” (Iliescu, 1996, pp.251-252). The document was *”overwhelmingly positive and that reflected both the metamorphoses carried out politically, economically and socially in both countries, and the processes developed in the European dimension and the international relationships”* (Iliescu, 1996, pp.251-252). The treaty was not ratified due to largely two reasons: firstly, Article 4 of the Treaty claimed that Romania should not be part of a security alliance in which there was no USSR (Papacostea, 2011, p.12) and secondly, the domestic vulnerabilities within the USSR did not represent the perfect occasion for this ratification, especially if we take into consideration that fact that in the same year (in December) the USSR faced dissolution (Buga, 2007). Therefore, Romania found itself on a vulnerable geopolitical environment, and had to define its position towards the former hegemonic power of the region.

Geographically, it was located at the conjunction of four vulnerable regions (Central-Europe, South Europe, Black Sea Region and Caucasus and Central Asia), a fact that increased the already high level of insecurity. Additional to these external vulnerabilities, the Romanian state was passing a period of transition internally. This made its international position even more assailable (Moştoflei, 2004, p.15). Taking all these aspects into consideration, the accession to NATO was seen in 1993 as the only viable option to meet Romania’s national interests and to tackle its vulnerabilities (Ionescu, 2004, p.20). In September 1993 Ion Iliescu (at that time the President of Romania) officially asked Romania to join NATO (Popescu, 2002, p.37). This was a crucial moment for the future development of Romania’s foreign policy, as in 1994 the two parties signed the Partnership for Peace (PfP) agreement and started Romania’s accession process towards the Euro-Atlantic structures. Russia was far from being the USSR in terms of capabilities and hence aims, and it did not officially object to Romania’s integration, but it insisted on the fact that Bucharest should *’not join a regional security system in which Russia does not belong* (Bitkova, 2009, pp.93-100). At the same time, the Romanian state still viewed its eastern neighbour as a possible threat (this perception remains valid at the level of public opinion even today). In 2002 Mircea Geoana, Romania’s Minister of Foreign Affairs, stated in an official declaration that: *”In Romania, the overwhelming majority believes that integration in NATO is the only true guarantee for our democratic sovereignty and the safest road towards prosperity and security for every citizen”*(Geoana, 2005, p.211)

After joining NATO in 2004, Romania continued its strategy towards the West and succeeded in joining also the European Union in 2007. These choices, coupled with divergent national interests, affected negatively the relationship between Romania and the Russian Federation.

## 2. ROMANIA AND RUSSIA AFTER THE EUROPEAN AND EURO-ATLANTIC INTEGRATION

Given the fact that the relationship between the EU/NATO and Russia is not the main topic of the present paper, I will resume the main security issues raised between them. Firstly, regarding Russia's relationship with the EU, using its capabilities, Russia's actions influenced the security level of the entire European region, as in August 2008 when the Georgian War erupted. The European Union's representatives (at that time France was holding the presidency of the European Council) negotiated and obtained a Six Points Plan in which both Russia and Georgia had to: abstain from using force; stop any military action; provide free access for humanitarian aid; Georgian Armed Forces had to withdraw to their operational basis; the Russian Armed Forces had to withdraw to positions held before the crisis (this was the biggest fear for Europe, therefore this fifth point was crucial in terms of stability, security and predictability as it acted as an insurance that Russia will respect Georgia's territorial integrity and sovereignty). Given the fact that the Russian troops were not withdrawn, we can consider this episode as a Russian victory and a Western's loss, an opportunity that officially changed the balance of power in Europe (IANS, 2008).

In terms of energy, the EU's expected dependence on short and medium term (for example for the next 20-30 years) will reach nearly 90% for oil, 76% for natural gas and 100% for coal (Umbach 2010, 1236). Its main energy partner is Russia, which more than once has used its energy resources in order to obtain some political objectives. In this sense we can recall the Ukrainian gas crisis that affected even Romania and proved once more that Russia's "divide and impera" method is working very well in the case of Europe. At the same time, the Russian Federation's economy makes the relationship between importing and exporting states more interdependent. *"In recent years the share of the federation's oil and gas revenues, has come as high as 50 percent of GDP. Of this figure, 37 percent was drawn from specific oil and gas taxes and 13 percent from corporate income tax drawn from the oil and gas industry"*. (Kurlyandskaya, Pokatovich, Subbotin, 2010, p.1)

Once the current economic crisis has erupted, the relationship between the EU and Russia has passed through some notable changes. Firstly, the European states tend to focus more on the inside, rather than outside, a fact that shifts their interests. For example, the current Cyprus crisis has the potential to endanger the strategic partnership between Berlin and Moscow, due to the Eurogroup's load and conditions that seem to affect the interests of Russia, as many Russian citizens and companies (including for example Gazprom) have financial deposits in Laiki Bank and others (Fischer, Menkiszak, Popławski, 2013). All these dynamics within the EU and/or NATO have the potential to affect the relationship between Russia and Romania,

especially since the latter is a member of both Western structures. When the Georgian war had erupted, the EU froze the negotiations regarding a new Partnership and Cooperation Agreement with Moscow and suspended other discussions. As a consequence for Romania, a Member state of the EU, the economic trade between Bucharest and Tbilisi decreased by 23%, from 239.4 billion dollars in 2008 to 185.2 billion dollars in 2009 (Băhnăreanu, 2010, p.56). Another consequence of this war, this time issuing from the status of being a NATO ally, was the fact that after the Bucharest Summit in April 2008, there were prospects of an official visit of the Romanian President, Traian Băsescu, in Moscow. After the war had started, the relationship got more alienated as a common position of all allies towards Russia was developed (Chifu, 2012).

Regardless of its double status, the fact that Romania is a Black Sea country, a future possible regional power in an area which is considered by Russia to be its near abroad, and a host country for the American ABMDS bring additional pressure on their relationship. At the same time, Russia can be characterized as being a regional power willing to become a global power. It is a nuclear state, it wants to influence the development in Eastern Europe and the Black Sea region and it sees USA and NATO in terms of enmity. All these regional dynamics are or if not they should be influencing the national strategy of a state, at least in terms of preferences, threats, risks, vulnerabilities and opportunities. Also, they should have a great impact over the official relations between the two players. In the case of Romania, the last official document that analyses the regional and international dynamics that can influence Romania's security is the National Defence Strategy of Romania (SNAp, 2010). Regarding the Russian Federation there are some short references on page 16 (External Action Chapter): "*Romania benefits from the special relations which NATO grows with states like the Republic of Moldova, Serbia, Russia, Georgia and Ukraine*"; and within the International Security environment chapter, there are also some passing references regarding the Georgian war and the gas crisis. As it can be observed, the main regional actor in the area, which is lacking predictability and is not the most opened and ready to negotiate player, Russia, is missing from the strategy, the only strict reference being negative. This reference to Russia has attracted Eastern criticism, because it speaks about: "*Foreign troops stationing, without the host's approval, in the vicinity of the Romanian borders (Transdnestr) represents a National Security threat, therefore Romania will act for the withdrawal of illegal-stationed troops and ammunition*"(SNAp, 2010, p.16). Therefore, Romania positions itself on a negative trend towards Russia as this official strategy alone can influence negatively their relationship without other developments. In other official documents like the National Programme, chapter 12-"Energy and Natural Resources", there is no single mention of Russia, although is it the first gas exporter in the world and a huge producer of energy resources. This proves some lack of interest, that it is not always beneficial for the Romanian state (Chifu, Nantoi, Sushko, 2010, p.12). These perspectives do not seem to change not even in official

declarations: in September 2010, Traian Băsescu declared at the Ambassadors' reunion that "*We should not upset each other*" (original text: "...dar pentru asta nu trebuie sa ne suparam unii pe altii") (Chifu, Nantoi, Sushko, 2010, p.13), because Romania is pro Nabucco and AGRI and Russia is pro South-Stream. It seems like Romania's positions itself on the same power place with Russia, position which is not very comforting for its Eastern neighbour. Romania's President, according to Romania's Constitution, has the major role in representing and establishing the state's external policies/goals/interests, thus, references as: "Russia is considering Romania as an enemy" or "Romania is not an enemy to the Russian Federation" are proving the real level of cooperation between Moscow and Bucharest, a relationship that is more prone to adversity rather than friendship. These declarations were made after the Romanian diplomat was arrested and expelled from Russia due to some espionage accusations. Before this, in 2009 during the same Ambassadors' reunion, Russia was mentioned at "and others" chapter and not among Romania's priorities (Chifu, Nantoi, Sushko, 2010, pp.13-14). These declarations had a negative impact on the level of official visits: since 2008 when Putin came to Bucharest to NATO Summit and the failed visit to Moscow of Băsescu, There were no other presidential bilateral meetings between the two countries (Putin's last visit was in 2008, Băsescu's in 2005). Neither at the level of Prime-Ministers the situation is positive (the last visit in Romania was in 2003; in Russia in 2004) nor at the level of Ministers of Foreign Affairs (Russians came in Romania in 2005; Romanians went in Russia in 2009). In diplomatic terms this is a huge loss as you cannot have a positive and cooperative relationship with Kremlin if you do not meet at the highest level (presidential) for a period of 5 years, 9 years in the case of Prime-Ministers and 4 years in the case of Foreign Affairs Ministers (Romanian Embassy in Moscow website). If someone looks on the website of the Romanian embassy in Moscow there must be said that the bilateral relationship seems to be frozen around the year of 2009, except for some marginal cultural events. (eds. Lobjakas, Mölder, 2012, p.109). All these negative trends also had an impact over the Romanian public opinion. For example, after the Moscow bombing and the before mentioned diplomatic incident, Romanians' preferences were: predictably European Union- 73%, USA- 66%, the Republic of Moldova- 55% while The Russian Federation registered the same percent as Ukraine: 39% (Chifu, Nantoi, Sushko, 2010, p.22).

In economic terms, the trading volumes between the two countries were on a positive trend in the period of 2006-2008. After the Georgian war and the diplomatic incidents in 2010, and because of the strategic partnership with the USA and Moldova, and the Bucharest Summit, the traded volumes decreased drastically as it can be observed in the following table:

**Table 1. Commercial trading between Romania and Russia 2006-2010**

	2006	2007	2008	2009	2010
<b>Total</b>	4396,1	5000,0	5909,3	2810,9	3797,9
<b>Export</b>	374,1	582,8	897,7	716,3	1097,7
<b>Import</b>	4022,0	4417,2	5011,6	2094,6	2701,2

Source: Romanian Embassy in Moscow

### a. Romania-Moldova Strategic Partnership

The Republic of Moldova still remains one of the poorest countries in Europe with a monthly average salary of 300\$. Economically, it is dependent on the Russian energy exports. In terms of trade, Moldova's top trading partner is the EU with more than 40% of the total trade followed by Russia and Ukraine. The commercial relationship between the two is not directly proportional as in the EU's trade Moldova counts only for 0.1%. This makes it relatively vulnerable in terms of economic and social stability as Chisinau is a small power that tries to develop its relations with regional great powers. At realistic level it is deepening its dependence especially towards Russia, a fact that can have political consequences as well. In this sense we can say that it is equally dependent on Russia (vine exports and natural gas) and on the EU (trading) (Moldova, CIA- the World Factbook).

In terms of politics and security dynamics, after the disbandment of the USSR, Moldova found itself too in a totally new international environment, in which the Cold War distinction between the East and the West was not so definable, in which NATO began the enlargement process and Russia tried to recover its former status. Being an independent state, it had the liberty to position itself according to its national interests, strategies and vulnerabilities, but at the same time this liberty coupled with its small power status actually limited its external actions. Although Moldova scored the highest among all Eastern Partnership states, according to the Eastern Partnership states 2012 index, reforms are still needed in the judiciary system, and the Transnistrian region still represents a vulnerability, but maybe the most important and recent event that has the potential to change Moldova's trajectory towards the EU is the collapse of Filat's pro-European Government in March 2013. This last variable may be definable for the future prospects of signing an Association Agreement between Moldova and the EU, as Dan Dungaciu, the Director of the Political Science and International Relations Institute within the Romanian Academy, declared in an interview: *"Usually, this space is going one step forward and two back. There are two major events right now, one is referring to Moldova's tension between the East and the West, aspect that was crucial from its foundation until today, and the second one is the internal pressure within the Alliance for European Integration"*(Dungaciu, 2013). The winner of this domestic vulnerability seems to be Russia, given the fact that the Alliance seems to lose votes in the favour

of the Communist Party and the Socialist Party is getting stronger in political terms. Taking into consideration the pro-Russian policy developed by the Communists, it is possible for history to repeat itself. Counteracting this high influence that Russia still has over Moldova, socially, economically, and energetically, Moldova has to maintain its Alliance for European Integration, as Mihai Ghimpu (2013), the President of the Liberal Party in Moldova, highlights. Developing an antagonistic position vis-a-vis Russia will be a mistake from Moldova's side, as it is not in the position of Georgia (geographically, economically etc) (Popescu, 2012).

Taking into consideration the different strategies that Romania and Russia have regarding Moldova, it is naturally for the two to develop a competitive relationship. Regardless of these developments, Romania is maintaining its support for Moldova's integration, the Romanian President declaring that: "*Moldova will complete the Association Agreement with the EU by the Vilnius summit*" (Bănescu, 2013). This will naturally affect the interests of Russia in the area. At the same time, internally, Romania was criticized for not supporting enough or in a sustainable manner its immediate neighbour without attracting harsh criticism from Moscow. There is a huge difference between the declarative level and the practical one. Regardless of the ambassadors' quality, official declarations, the implementation level develops very slowly and thus is unproductive for neither of the parties involved. In Nicu Popescu's opinion, researcher at the European Council on Foreign Relations:

*"Romania should not think in terms of collision and conflict, but in terms of 'smart power' - to create maximum economic interdependence with Moldova-interconnection of gas, electricity, trade, visa liberalization, investments etc.....eventually Moldova's future depends 80% on the domestic policy and the ability of the Moldovan elites to reform the state, to fight corruption, to attract foreign investment, etc. Eventually rebuilt Russian influence in the region is due not only to politics and Russian intentions, but perhaps in an even greater extent it is due to the internal failures to reform Moldova. And the responsibility for this failure lies with Chisinau first"* (Popescu, 2012).

Regarding the Strategic Partnership between the Republic of Moldova and Romania, it extends far from the dual status of Romania. Romania was the first state which recognized the independence of Moldova (Andreescu, Stan, Weber, 1994). Since it entered the EU, Romania has tried to attract the Europeans' attention towards the integration of Moldova. In terms of diplomacy, Bucharest has always sent experienced ambassadors to Chisinau, whereas other states were sending ambassadors who were in their early or late carriers. This proves its huge interest in developing a prolific bilateral relationship with Moldova (Popescu, 2012). Strictly regarding the Transnistrian conflict, Romania has tried more than once to become an active player in the settlement process, but it was repeatedly refused by Moscow,

mainly because of the fact that Romania, being a member state of the EU and NATO, would affect Russia's room of manoeuvre on a multilaterally accepted and binding solution for the conflict settlement. Thus this is another divergent point between Russia and Romania that also affects their bilateral relations (Papakostas, 2009, p.14).

Regarding migration policies, in 2006, thus before entering the EU, all Moldovan citizens needed to obtain their visas and an invitation letter from a Romanian citizen in order to enter on Romanian soil. Additionally, they could not spend more than 90 days in Romania. After 2008, hence after the Georgian war, the legal provisions for granting the citizenship were changed, the visa and the invitation requirements being eliminated. As a predictable consequence, the number of applicants multiplied, thus in 2009 21.299 Moldovan citizens became Romanian citizens, while in 2008 only 4.967 citizenship were approved by the Romanian authorities (*Migrants and Borders Romania and Moldova*). This support was criticized by Russia, accusing the Romanian authorities for imperialist behaviour and for affecting its national interests in the "near abroad" territories. This behaviour was also amplified by Băsescu's response to a question coming from a Russian official during the Parliamentary Assembly within the Council of Europe regarding Romania's intension vis-a-vis Moldova (annexation intensions or not), the Romanian President declared that: "*Please note that Romania does not have experience in annexing other states*"(cit in Mihailescu, 2011). This declaration irritated more the Russian authorities and created a bigger chance of defecting for both states. Thus the Republic of Moldova is a sensitive subject present to all bilateral negotiations for both Romania and Russia and tends to increase the already huge gap of trust between the two and has the potential to close another chapter in which the two could have cooperated.

## **b. The Black Sea Region**

The Black Sea region represents a continuous power play between regional (Russia, Turkey) and non-regional (the EU, NATO) actors, which makes the regional security level very low. Although the situation of a homogenous region is desirable from a security point of view, the Black Sea has got all the characteristics of a heterogeneous type of region. The directly involved actors have different backgrounds, different strategies, and different interests. All these differences are creating a framework of mistrust, insecurity, unpredictability, as states and/or organisations compete in order to obtain more power and influence in the region. Traditionally, the Black Sea was seen by the Russian authorities as being their area of influence. But, at the same time, this region represents Romania's chance to become a regional player.

The most known regional organisation that has a special focus on this region is the Black Sea Economic Cooperation Organisation. It was established in June 1992 and it officially comprises 12 states: Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, the Russian Federation, Turkey, Ukraine and Serbia (*International Democracy Watch, BSECO*). It was considered as being traditionally dominated by Russia. In this respect, Romania as a member state of the EU and NATO found it opportune to increase its regional role by promoting the establishment of other initiatives that are meant to tackle the specific issues present in the Black Sea region. Examples in this sense can be: the initiation of the Black Sea Forum for Dialogue and Partnership (henceforth BSFDP) (June 2006), or the Black Sea Synergy (April 2007). These initiatives could be seen as ways to balance the influence of Russia in the area, but especially due to this influence, neither of the two have had a remarkable success. The official meetings often missed by Russia give proof to this statement. The reasons are predictable from the Russian point of view: all these attempts are aiming to decrease Moscow's influence in the region, therefore they represent the competition. At the same time, it would be practically impossible if not naive to try to develop a positive, productive and efficient Black Sea Strategy as long as Russia is not part of it (Papakostas, 2009, p.16).

Additionally to these attempts, there is the Strategic Partnership between the USA and Romania. The traditional antagonism between Russia and the USA is well known, therefore when the Romanian President declared the proclamation of the Washington-London-Bucharest 'axis', the bilateral relationship between Romania and Russia was further deteriorated, as Kremlin "*feared that Romania would work as America's foothold in a region that was traditionally off-limits for the US. In that respect, US' bases in Romanian ground would facilitate energy transition projects, antagonistic to respective Russian ones*" (Papakostas, 2009, p.13). The pressure became higher as the Romanian authorities signed an agreement with the USA and agreed to host a part of the anti-ballistic missile defence system (ABMDS) on Romanian soil (SM 3 interceptors). When the agreement was settled, the bilateral relation with Moscow was on a positive trend, as it was recovering from the 2008-2010 period in which, economically, the trading volumes decreased by approximately 40%. Once the agreement and the base on Deveselu was to be implemented, the negative reactions appeared through non-political individuals, like Admiral Viktor Kravchenko, former Russian navy chief of staff, who said that "*the new US anti-missile defence base in Romania would break the balance of power in the Black Sea area once it started operation*" (ed. Lobjakas, Mölder, 2012, p.112). Although Russia was consulted during the negotiations, it demanded legal guarantees from the United States that would ensure the Eastern power that the American missile defence shield that is to be implemented in Romania would not target Russia's strategic nuclear forces. But this request got no positive response, as predictably. (ed. Lobjakas, Mölder, 2012, p.112). Russia's fears for this project are not if the project is aiming to be built against it, because due to recent events in North

Korea, USA renounced to the fourth phase of the project in Europe (designed to protect the allied against long range missiles- the main strategic forces of Russia), but as Dimitri Rogozin was saying: "*Perhaps the U.S. missile system does not have us targeted, but certainly it is not in our favour*"(Caloiu, 2013), hence the main issue here is the fact that the nuclear balance of power is to be shifted and this can generate an arms race once again. Russia reacted by conducting unannounced military exercises in the Black Sea. The exercise comprised of: 36 ships of the Black Sea Fleet, military aviation, airborne infantry troops, ground troops, naval infantry troops, rapid reaction forces, as well as Spetsnaz subunits. Overall, the March 2013 military exercise was the largest exercise in post-Soviet fleet's history (Stephen Blank 2013). Another important diplomatic reaction is the fact that Russia refuses to talk with Romania in what concerns the ABMDS, preferring to negotiate exclusively with the USA. This exclusion can suggest the different geopolitical status between the two countries, therefore the negotiations are unbalanced. At the same time, it can refer solely to the fact that, basically, the system belongs exclusively to the American part in Russian eyes. This belief can be seen at all levels. For example, asked about the ABMDS during an interview, the Russian Ambassador to Romania, Oleg Malginov, declared firmly that: "*Regarding Deveselu, the discussion is between Russia and USA!*" (Oleg Malginov, 2012)

Hence, there must be said that not solely the presence or attempts of Romania as an aspiring regional power are so disturbing for Russia, but also its quality of EU member state and NATO ally. For Russia, when Romania has a position, it also reflects the position of the US for example, and this is where Moscow tends to intervene and say "Niet".

### 3. THE ENERGY SECURITY

Another hot topic on the Romanian-Russian Agenda is the energy security. The Black Sea is again very important in strategic terms, as the researchers are still discovering energy resources beneath its waters. The latest discovery made by Exxon Mobile was a gas deposit during their first deep-sea operation (over 3000 meters), Domino-1. The gas volumes that were discovered are considered to be significant: they are 3 to 6 times the annual consumption of Romania. If explored, in economic terms, that amount would ensure the independence of Romania in terms of energy on a short term. These resources are even more important, as the Romanian state is importing 30% of its necessary gas from the Russian Federation. Given the grey area in which the bilateral political relationship between the two neighbouring states, a carrot strategy was in Moscow's opinion the most suited form to respond. Thus, starting with 2012, Romania was paying for 1000 cubic meters \$ 379, the highest price across the European Union. Moreover, starting with April 1, 2012 the price was raised to \$ 390 for the same amount. More importantly, this increasing price was

taking place within the framework in which Gazprom had reduced the price for the exported natural gas towards other EU member states (for example, Bulgaria, a direct neighbour of Romania, received a 11% discount for the same amount of 1000 cubic meters)(Ghimiş, 2012, p.28). Thus, the political freeze between Bucharest and Moscow has effects at all levels of negotiations, as Romania tends to fail to ensure both its security (understood in the broad way) and the security of others and this is a capital inaccuracy for states that want to become regional players. To balance Russia in its own region proved to be not so productive.

## CONCLUSIONS

To resume the recent developments and official declarations between the two states, we could say that Romania and Russia find themselves within a grey area since 2008 and negative dynamics can be seen in all sectors: economy, energy, social, diplomatic etc. In order to change this status quo:

1. Both countries should moderate their speech in order to decrease the already high level of mistrust and lack of support coming from the public opinion;
2. Regarding the Black Sea region, Bucharest should stop developing additional programs that are competitive towards BSEC, as one cannot develop a sustainable and realistic strategy without Russia in the Black Sea; or as an additional solution for this area, Romania should negotiate better its position within the EU and attract more the attention of other member states upon the region which will give it the required legitimacy to act as a security factor;
3. In terms of West versus East, Romania should adopt a more moderated position regarding the differences between the EU and NATO versus Russia.

Therefore, the bilateral relationship between the Russian Federation and Romania is far from being at its possible potential. Being a member state of the EU and NATO, it is automatically influencing the interests and preferences of the Romanian state, and this could be seen after the 2008 Georgian War. At the same time Romania is an Eastern frontier state, therefore intrinsically it should define its position vis-a-vis Russia in terms of costs and benefits from a security point of view.

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# EURONEWS - A PROMOTER OF THE EUROPEAN UNION “QUIET DIPLOMACY”

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**Abstract:** *This article draws a comparison across Euronews, Cable News Network and Russia Today, as vital tools in promoting European Union’s foreign policy, the American foreign policy, and the Russian one respectively. Therefore, a short historical account of each channel is provided in order to show the context in which they appeared and evolved. Furthermore, the profiles and the program schedule of these news cables are to be discussed in connection with the foreign policy of the EU, the US and Russia, with particular interest to the “Syrian Crisis” beginning in March 2011- degenerating into the nowadays civil war. This case study is paradigmatic for revealing the informational welfare on the background of antagonistic foreign policies of great powers. Accordingly, through discourse and media coverage analyses, one can find that despite a strong EU position against the Syrian regime, the Euronews coverage of the Syrian events is neutral and less emphatic when compared to the CNN or RT coverage. Although, this fact renders Euronews less visible on the international stage of news media, the journalistic strategy of the European network is consistent with EU’s foreign policy through “quiet diplomacy”.*

**Keywords:** Euronews, European Union foreign policy, news coverage, Syrian crisis, quiet diplomacy.

## INTRODUCTION

Media is widely viewed as a vital soft power element. The spreading of international news broadcasts proves this fact. It seems that every big power contributes to the functioning of an international news channel (Great Britain-BBC, France- France 24 etc.). Euronews is particular as it provides news from a Pan-European perspective. In addition, it is praised for its neutral editorial line. This feature is an asset within the landscape of international news media, rendering it as a reliable and legitimate source of information. The channel makes a valuable contribution to forging the European soft power by creating a medium for debating European and global issues.

This article argues that Euronews, through its neutral news stance is a promoter of the European Union “quiet diplomacy” as envisioned by the High

Representative of the Union for Foreign Affairs and Security Policy, Catherine Ashton, by “building confidence” and “maintaining the strong EU reputation in the world”. Therefore, results are pursued on the ground rather than only in sensational news lines on the EU diplomatic activity. The Syrian crisis (2011-ongoing) is a case in which Euronews followed its traditional neutral stance despite the EU criticism on the Syrian regime. Still, this provides credibility, legitimacy and therefore soft power leverage for the European Union.

The first section of the article focuses on the features of CNN, Euronews, Russia Today in terms of the historical context of their creation, organization, impact and programming. The second section refers to the Syrian crisis coverage provided by the three broadcasts. The analysis applies the method of discourse analysis for hundreds of news segments in order to emphasize the connection between states’ policies and media coverage.

## **1. NEWS CHANNELS PROFILE OVERVIEW**

This section provides a brief historical presentation of the three news channels with special reference to their editorial profiles. This analysis is necessary in order to stand out these particular news channels from the array of news media comprising channels such as BBC World Service, Deutsche Welle, France 24, Al Jazeera etc.

### **a. Cable News Network (CNN)**

CNN was launched on 1<sup>st</sup> June 1980, the first TV channel to provide 24-hour news coverage. CNN is an international English language television network, available in most countries. CNN is the world’s largest news organization, owned by Turner Broadcasting Team, initiated by the American media mogul Ted Turner. Its headquarters are placed in Atlanta, Georgia (Table 1). The network changed the notion of news reporting at fixed times throughout the day. CNN was created “to offer information and understanding of current events, to place them in historical context and to illustrate them with arresting images” (Schonfeld, 2000, p.1). The impact of real time, 24-hour news coverage, was very important as instantly transmitted images had a high potential of firing public opinion. Domestically, CNN reaches nowadays “more individuals on television, the web and mobile devices than any other TV news organization in the United States (Turner Broadcaster System, 2013).

CNN International is an internationally oriented news channel, with employees from different national backgrounds. It can be seen in more than 260 million televisions households in more than 200 countries and territories through a network of 38 satellites (Turner Broadcaster System, 2013). The network is regionalized in five regions (since 1997): CNN International Europe/ Middle

East/ Africa, CNN International Asia Pacific, CNN International South Asia, CNN International Latin America and CNN International North America.

The major re-branding processes of CNN International coincided with the technological innovations, particular historical contexts and editorial teams. The proliferation of new technologies during the 1980s was the major incentive for the CNN set up. Throughout time the channel communicated historical events that shaped the world such as the Challenger disaster (1986), the fall of the Berlin Wall (1988), Tiananmen Square protests (1989), The First Gulf War (1991), 9/11 attacks (2001), 2008 US presidential election etc. After the end of the bipolar international system (1990), within five years time, the CNNI focused on targeting the global diverse market. The nowadays broadcasting follows the strategy adopted in 2009, best illustrated by the channel's motto "Go Beyond Borders". This evokes the international perspective of the information provided in the news.

This article focuses particularly on the CNN International Europe/Africa/Middle East. Its schedule reveals the preoccupations of the regions concerned. Therefore, programs once per week such as "Inside Africa", "CNN Marketplace Middle East", "African Voices", "CNN Marketplace Europe", "CNN Marketplace Africa", "Inside the Middle East". Yet, the most praised programs are those with anchors benefiting from international notoriety such as "Amanpour.", "Anderson Cooper 360", "Piers Morgan Live" and "Fareed Zakaria GPS". The most successful CNN program is considered to be "Larry King Live" (1985-2010) as it was the most watched and the longest-running. Larry King's interview style was appreciated by critics and interview guests as he made his guests to talk about themselves without intriguing questions. On this very show, in 2010, Jon Steward voiced a major concern about CNN's latest media strategy congratulating Larry King that he was to leave the channel "You made the right choice by leaving this place. You know who you are? You are the last guy leaving this burning building (...) CNN has this infrastructure, they have all the international reach, technology and sometime it just feels squandered, squandered opportunity (...) CNN has an opportunity to be a real arbiter but this means taking a stance". Therefore, according to Steward (2010), CNN would earn much more credibility if it expresses stronger editorial authority.

In the context of the First Gulf War (1991), the Pentagon coined the term "CNN effect" to express the influence of real-time 24-hour news coverage on the decision-making processes of the U.S. government.

## **b. Euronews**

Euronews was launched on 1<sup>st</sup> January 1993 and it is headquartered in Lyon-Écully, France. Its format is very different from CNN as it only shows footage with recorded voice-overs. Its motto, "Pure", suits its unique style in a

highly competitive news media environment. The channel has an “unrivalled supply of news footage around the world through the Eurovision Exchange, and its public service broadcast shareholders, as well as from the major news agencies” (Euronews 2013). Access to wide range of sources enables Euronews team of over 400 journalists of 25 different nationalities to analyze and report with balance, maintaining impartiality (Euronews 2012). The network is the European leader in terms of audience figures. Euronews believes in human intelligence and in the ability of the audience to make its own opinion (Euronews 2012 Media kit, p. 3).

Euronews presents itself as “Europe’s news channel, covering world news from a European perspective” (Euronews 2011). The pan-European multilingual news service broadcasts 11 language services 24/7 in simulcast (Arabic, English, French, German, Italian, Persian, Portuguese, Russian, Spanish, Turkish and Ukrainian), everywhere in the world. It reaches 294 million households in 150 countries throughout Europe, The Middle East, Africa, Central Asia, North and Latin America (Euronews 2013).

Collins (1998, p.127) reviews the creation process of Euronews emphasizing that CNN’s coverage of the Gulf War of 1991 was an incentive for launching the European network as the political elite believed that CNN set the news agenda during Operation Desert Storm 1992 downplaying an European view on the conflict.

Euronews is offering news reports on the half hour. The up-to-the-minute news bulletins cover latest news, business, finance, sport, current affairs, weather, and live breaking news. The channel complements news services with current affairs (“Focus”, “Business Weekly”, “Markets” etc.) and lifestyle programming (“Rendez-vous”, “Reporter” etc.), looking into the latest technologies (“Futuris”, “Hi-tech”, “Innovation”, “Space” etc.), the arts and entertainment including cinema (“Cinema”, “Le mag” etc.), fashion, travel (“Metropolitans”) and culture (“Generation Y”).

As Paolo Garimberti (2012), Chairman of the Supervisory Board states, “unlike many other news channels, Euronews presents an incomparable diversity of perspectives”. Still, the network is fundamentally committed to human rights and freedom of expression, as these values are deeply-rooted in Euronews’ ethos.

### **c. Russia Today (RT)**

Russia Today is an international multilingual Russian-based television network launched in 2005. The network is registered as an autonomous non-profit organization. RT network consists of three global news channels broadcasting in English, Spanish and Arabic. It has 22 bureaus in 19 countries and territories, being present in key cities around the world such as Washington, New York, London, Berlin, Delhi, Cairo, Bagdad employing over 1000

journalists around the world. The network has a global reach of over 630 million people in over 100 countries.

Despite widespread skepticism about the new channel in its early two years, nowadays it is a reference point in the international media. Kremlin has spent \$30 million setting RT up in order to fix Russia's image problem as stressed in a 2003 survey, commissioned by Putin's government, asking Americans the things they associated with Russia (Evans 2005). The results were worrying indeed, the top four things being communism, KGB, snow and mafia (Evans 2005). The broadcast had the full support from the former Information Minister Mikhail Lesin and Putin's press spokesman Aleksei Gromov.

RT's slogan "Question more" is illustrative for its editorial policy as it provides an alternative perspective on major global events, and acquaints international audience with the Russian viewpoint (Russia Today 2013). Margarita Simonyan, RT's 33-year-old editor-in-chief, explains RT's vision: "We offer an alternative to the mainstream view" (The Guardian 2009).

One of the most successful shows on RT is "CrossTalk" - presenting hot-topic discussions on politics, business, newsmakers, etc. The show is praised for the intense debates the host Peter Lavelle initiates by inviting people with different views on the subject matter in focus and by posing straightforward questions. Another well-known programme is "RT Documentary" as it gives deep understanding on different aspects of life worldwide. The "Truthseeker" is also known for exposing intriguing cases while seeking truth from facts.

The network is gaining more audience as it usually provides different views from the mainstream ones on news issues. Also, its direct and intriguing style of reporting is appreciated as it reveals new perspectives on international affairs. RT was the first TB news channel to break a half a billion views mark in YouTube's history. Therefore, RT's YouTube platform is "core" to the ongoing emphasis on multi-media news-delivery across the RT family (Russia Today 2013).

**Table 1. Basic information on CNN, Euronews and RT**

			
Launched	1 June 1980	1 January 1993	10 December 2005
Headquarters	Atlanta, US	Lyon, France	Moscow, Russia
Motto	"Go Beyond Borders"	"Pure"	"Question more"

*Source:* Compiled data from Turner Broadcasting System, INC. <http://www.turner.com/>, Euronews - The Station <http://www.euronews.com/the-station/>, RT- About us <http://rt.com/about-us/> accessed on March 2013.

## 2. SYRIAN CONFLICT COVERAGE (2011)

Networks' compliance with their stated principles and editorial policies is best evaluated in their coverage of an issue of high importance for many stakeholders in international affairs. As a result, a review of the academic literature on the link between media and state politics is provided. Next, the empirical analysis looks into the comparative Syrian conflict coverage. The empirical focus is placed on video news segments such as "Breaking News" or basic news outlets. For the evaluation, attention was also paid to the overall coverage of the events, including written news, documentaries and in-depth analysis of the situation. The approach is deductive, with the "manufacturing consent theory", as the theoretical framework for the empirical part.

### a. International news media and world politics

The literature focusing on the relationship between media and foreign policy decision-making process has emphasized two main directions of their mutual influence. Following Robinson's (2002) overview of international news media-foreign policy decisions theories, the empirical analysis of this study is based conceptually and theoretically on the "manufacturing consent theory".

The relationship mentioned above is often referred to by the catchphrase "CNN effect", which is the "generic term for the ability of real-time communications technology, via the news media, to provoke major responses from domestic audiences and political elites to both global and national events" (Robinson 2002, p.2). Although it is often understood as public opinion influence, the CNN effect also concerns the impact of media coverage on policy-makers, experts and commentators who make up the foreign policy elite. Theoretical perspectives on the media-state nexus are:

Firstly, the CNN effect as "political control theoretic perspective" (Mermin 1997) places great emphasis on the people responsible for setting the news agenda (journalists or political figures). The scholar abovementioned, having analyzed the CNN effect in the case of Somalia crisis (1992), concluded that because it was officials setting the news media agenda and not journalists, the US decision to intervene in Somalia is not a case of the CNN effect. In his study on the role played by news reporting in a series of humanitarian interventions in Iraq, Somalia, Bosnia, Kosovo and Rwanda, Robinson (2002) challenges this perspective by introducing a more systematic analysis employing a variety of research strategies, rather than relying upon interview data only, and focus upon the actual influence of news coverage on the policy process, rather than news sources.

Secondly, Robinson's (2002, p.30) theory of media influence accounts for a policy-media interaction model focusing on the level of elite consensus, media-state relationship and role of media. He proposes to measure policy certainty and news media framing in order to make a theoretical informed assessment of whether or not news media coverage was a factor in a given policy process. Therefore, in the case of elite disagreement plus policy uncertainty within government, the media takes sides in political debate and coverage becomes critical of government providing bargaining power for those seeking a change in policy (Robinson 2002, p. 30).

Last but not least, the "manufacturing consent theory" of the media-state relations informs this study. This theory emphasizes the ability of governments to influence the output of journalists and the tendency of journalists to perceive and present the global events through the lenses of the political elite. Wheeler (2000) makes a similar point in his study of humanitarian intervention. He argues that media coverage does not cause or force policy-makers to intervene, but rather enables policy-makers to intervene by building public support. Also, Robinson (2002, p.28) presents two modes of crisis reporting labeled as "distance framing" meaning that the style of coverage creates emotional distance between the audience and the people in a conflict and "support framing" that is meant to influence the official policy. Robinson's categories of media framing and the "manufacturing consent theory" inform the empirical research in the next subsection.

### **b. Comparative analysis of the Syrian conflict media coverage**

This subsection firstly refers to the position of the US, the EU and Russia regarding the Syrian crisis. Secondly, the analysis takes into account the rhetoric and actions of the three world powers following in parallel the coverage of the Syrian conflict provided by the international news channels invoked here. The empirical research looks into video coverage particularly, the methodological position being discourse analysis. Specifically, it follows three elements: depiction of the crisis, references to crisis solutions. A bounded timeframe has been chosen for the comparative analysis: 16 March 2011 (first protests) - 23 December 2011 (disputed twin suicide bombings in Damascus). Although since March 2011 the conflict has spiraled out of control into ongoing civil war, the empirical research works out the video coverage archive of CNN, Euronews and RT for ten months (March-December 2011) as this period was decisive for an external intervention or for a clear victory of the fighting Syrian actors (regime vs. opposition). From 2012 the conflict entered a new phase resembling a civil war. The Syrian conflict is one of the most severe contemporary conflicts in terms of number of victims, war atrocities proofs of crimes against humanity.

The Syrian crisis debuted on March 2011 in the context of widespread protests in Middle East (beginning in 2010- Tunisia). To date, leaders have been forced from power in Tunisia, Egypt, Libya and Yemen. Still, the Syrian case is of high stakes internally and internationally, the country having a great importance of the regional balance of power. The crisis unfolded at a time when despite violent protest crackdowns in Libya and Syria, the international community has intervened militarily with unprecedented speed in the former country invoking the protection of civilians, while in the Syrian case it failed to do so. The international community was deeply divided on the issue of crisis portrayal and understanding and on the subject of how to respond to the crisis.

The United States of America condemned “in the strongest possible terms the use of force by the Syrian government against demonstrators” (Obama 2011) and called on Syria to end the violence immediately and to implement the promised reforms. Also, the US adopted sanctions against Assad’s government comprising arms embargo, travel ban and asset freezes for Assad and his entourage.

The High Representative of the Union for Foreign Affairs and Security Policy- Catherine Ashton (2011) from the very beginning condemned the violence and urged Syria to implement “meaningful political reforms”. Within a month from the first instances of protests the EU imposed an embargo on arms and equipment that could be used for violent repression against the civilian population. Also, travel bans and asset freezes on officials identified as responsible for the forceful suppression have been enforced.

Russia has continuously called for substantive dialogue to resolve the situation in Syria and strongly opposed any UNSC resolution requiring sanctions against the Syrian regime. It called on all sides of the conflict to cease violence. The Russian Minister of Foreign Affairs, Sergey Lavrov, was the first foreign official who predicted a civil war as he emphasized the violent attacks coming from the Assad opponents.

The division of big powers was evident in the United Nations Security Council (UNSC) debates on Syria’s situation. Therefore it failed to take a decision in order to stop the violence. The resolutions sponsored by the anti-Assad regime states (the US, the UK, France etc.) were vetoed by Russia and China. This was the case on first two UNSC meeting on this matter, on 24<sup>th</sup> April and 8<sup>th</sup> June 2011.

Following Robinson’s (2002) media framework of “distance vs. support framing”, CNN, Euronews and RT provided different accounts on how the Syrian crisis unfolded. CNN and RT provided extensive coverage of every new development of the Syrian crisis. In the period of 15 March – 23 December 2011, the three networks ran approximately 300 video news segments each on the conflict. The start of the uprising is dated 15 March 2011, with demonstrations that grew nationwide by April 2011. The crisis has deep socio-economic roots

but the trigger was the arbitrary arrest and alleged torture of a group of boys who wrote anti-government graffiti in Daraa (International Crisis Group 2011, p. 4).

The channels provided different versions of the actors involved in the events. The term “crisis” is used to draw attention either to “a particular event or dispute and implies a moment of crucial decision in a dangerous context” (Griffiths *et al* 2007, p. 4). The civil war is protracted internal violence aimed at securing control of the political and legal apparatus of a state (Evans and Newnham 1998, p. 9).

CNN generally portrayed the Syrian crisis as a revolution airing the first news on Syria protests under the title “Middle East unrest reaches Syria” on 22 March 2011. Emotive language such as “bloody crackdown” and “helpless civilians” was used to describe the suffering of protesters and refugees. In general CNN run the news on bloodshed and afterwards would mention “CNN could not verify the authenticity of this video”. Furthermore, the guests explaining the Syrian situation were predominately human rights activists such as Amnesty International and Human Rights activists. CNN was widely emphasizing with protesters and opposing views were rarely covered. CNN stated that the “criminal Syrian regime” is fully supported by Russia and China.

RT offered a very different view of the Syrian conflict, emphasizing the violent feature of the anti-regime rallies. Although it reported about “protesters demanding democratic reforms”, it also stressed the “violent behavior” of some of them and the attacks of “armed factions” infiltrated into rallies. This channel is the only and the first one to have stated from the early months of the crisis the Al Qaeda support for Syrian rebels. The picture of the crisis provided by RT is one of protests comprising violence instigators and even extremists. Also, the majority of the commentators and analysts who joined the RT news cast in order to grasp the events were known as critics of mainstream view on the crisis such as Eric Draitser (geopolitical analyst from stopimperialism.com), Sibel Edmonds (former FBI translator) etc. News titles such as “A democratic Syria would destabilize the region”, “US troops surround Syria on the eve of invasion?”, “West aiming to topple Assad” etc. Moreover, RT was critical towards US and European support for regime opposition. In terms of solutions to the crisis, RT tended to highlight the need to stop the terrorist activities against the Assad regime. A possible international intervention was deemed unthinkable as it would have destabilized the region even more.

In contrast with CNN and RT, Euronews provided a reasoned coverage of the crisis. It informed on Syria almost on a daily basis with two-three updated news segments per day. In the first Euronews report on Syrian protests released on 18<sup>th</sup> March 2011, it called the events from 15<sup>th</sup> March “demonstrations”, “unprecedented rallies” and people taking part in them “protesters demanding more freedom and democracy”. Still, the protests were not depicted as entirely peaceful as instances of “crowds setting fire to the local headquarters of the

ruling Baath party” were reported. While the crisis emerged, violence against protesters was particularly emphasized by terms such as “protest crackdown”, “clashes with the security forces”. Emotive terms are scattering (Table 2) and usually the events are introduced by phrases such as “reports say”, “amateur videos show”, “it is said” as Western media was not allowed into Syria for four months. Nevertheless, Euronews references to the conflict supported the popular claims for democracy and liberty. Empathy terms are to be found in the coverage after two months in which the conflict escalated: “bloody Friday for Syrians”, “bloody crackdown”, “bloody unrest” but most terms refers to the victims on both sides of the conflict. Avoiding picturing the situation either in “black” or “white”, Euronews does not appear as sensational or controversial as CNN or RT but it appears as a reliable source of information when one compares it with CNN and RT reports that can be judged as biased.

**Table 2. Portrayal fragments of the Syrian crisis and its possible solutions**

	CNN	Euronews	Russia Today
Crisis description	<ul style="list-style-type: none"> <li>- Protests peaceful in nature</li> <li>-Regime used lethal force against peaceful demonstration</li> <li>- Legitimate aspirations of the Syrian people</li> <li>- Bloody crackdown</li> <li>- Syrian opposition</li> <li>- Disproportionate violence by the Syrian armed forces</li> <li>-Helpless civil population</li> </ul>	<ul style="list-style-type: none"> <li>- The biggest threat yet to the authority of Bashar al-Assad</li> <li>- Demonstrations for more freedom and democracy</li> <li>- Police opened fire on demonstrators</li> <li>-Demonstrators set fire to public buildings</li> <li>- Symbols of Syria’s ruling elite have burned in Deraa</li> <li>- Protest crackdown</li> <li>-Unprecedented anti-regime rallies</li> </ul>	<ul style="list-style-type: none"> <li>- Deadly spiral of protest</li> <li>- Armed factions attacked state buildings</li> <li>- Peaceful protests calling on reforms</li> <li>- Extremists, criminals and terrorists are infiltrated into rallies</li> <li>- Syrian rebels</li> <li>- Atrocities committed by the opposition</li> <li>- Rebels re-vamp</li> <li>- Manufactured opposition</li> <li>- Foreign mercenaries</li> <li>- Massive amounts of weapons are being smuggled to rebels</li> </ul>
Envisaged solutions	<ul style="list-style-type: none"> <li>-Regime change</li> <li>-The international community</li> </ul>	<ul style="list-style-type: none"> <li>-Ceasefire</li> <li>-International community consensus on the</li> </ul>	<ul style="list-style-type: none"> <li>-The Roadmap for Libya intervention is not suitable for Syria</li> </ul>

	should stand up for the Syrian people -International community intervention to stop the bloodshed	conflict for stopping the bloodshed -Humanitarian aid	-Political dialogue between opponents -Halt of violence, ceasefire -Unacceptability of outside intervention
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*Source:* Compiled data: CNN Archive 2011: Syria <http://edition.cnn.com/search/?query=syria>, RT Archive 2011 <http://rt.com/search/everywhere/term/syria/>, Euronews Archive 2011: Syria <http://www.euronews.com/2011>, accessed on March 2013.

## CONCLUSIONS

The great importance of the media for soft power propagation and development is indisputable. Although CNN, Euronews and RT cannot be compared in terms of audience target, capabilities and age, a comparative analysis of their activity on the Syrian conflict reveals new insides into the media-state relation.

Nowadays the Syrian crisis is a flashpoint in the Arab world, but the period covered here (the first ten month of the conflict) was vital in shaping the view on the situation from the ground. The CNN, Euronews and RT coverage influenced the public opinion in a different direction. CNN offers a pro-protesters view of the crisis by framing the news with empathetic terms and images. In contrast, RT's stance is pro-Syrian regime portraying the protests as manipulation from terrorist and insurgents. The CNN and RT coverage follows closely the official American and Russian position respectively. Euronews is by far neutral despite a clear anti-Assad EU stance. Still, this fact reinforces Euronews as a reliable source of information and reiterates EU's "quiet diplomacy" strategy.

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# EU NEIGHBOURHOOD AND ITS "NEIGHBOURS": EU GEOPOLITICAL ROLE AND STRATEGIC AMBITIONS IN CAUCASUS AND CENTRAL ASIA

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**Abstract:** *Since 1991 post soviet Caucasian and Central Asian new independent republics have attracted the growing interests of several states inside a geopolitical competition, triggered by the concern of a power vacuum after the dissolution of the Soviet Union and the consequences that unsolved political, economical and social problems could provoke beyond the regional boundaries, as well as by the strategic relevance of the stability and security in the region and above all by the opportunity to exploit the Central Asia and Caspian huge oil and gas reserves, in order to secure the control of the exports energy routes. The purpose of this paper is to evaluate the potential role of the European Union in South Caucasus and Central Asia and its ambition to become a geopolitical player and an alternative pole of influence in the regional chess-board: following the adoption of the European Neighbourhood Policy in 2004 and the Strategy for a new partnership between EU and Central Asia 2007-2013, the EU has a concrete opportunity to exercise an important political and economic influence in the region. However, in order to achieve this geopolitical ambition the EU should guarantee the necessary balance between energy/security interests and the promotion of a democratisation process.*

**Keywords:** European Union, Post soviet region, Caucasus, Central Asia, geopolitics

## INTRODUCTION

Since the independence of its republics, post soviet region has attracted the growing interests of several states inside a geopolitical competition that has been too emphatically defined as a modern version of the 19<sup>th</sup> century “Great Game”: Russia, United States, Turkey, China have emerged as the main geopolitical actors even if other countries - such as EU, Iran, India - have played a significant role in the region. Following the inclusion of Southern Caucasus countries within the European Neighbourhood Policy and the adoption of the “Strategy for a new partnership between EU and Central Asia 2007-2013”, the EU has a concrete opportunity to exercise an important political and economic influence in the region, strengthening its strategic position and overcoming its geopolitical subordinate position in which it had been relegated since 1991. The purpose of this paper is to evaluate the potential

role of the European Union in Southern Caucasus and Central Asia and its ambition to become a geopolitical player and an alternative pole of influence in the regional chess-board:

However, this EU geopolitical ambition has to compete with the strategic interests of other powerful geopolitical actors which exercise a strong economic, political and military influence over these republics. In spite of some indisputable progress in the political and in the energy sphere, little progress has been registered in the human rights field and in the democratisation process: as a matter of fact, at present the EU - as a potential geopolitical player in the region - privileges a *realpolitik* approach in its relations with Central Asian and Caucasian republics, because EU main strategic interests appear mainly focused on securing access to the region's energy supplies and on ensuring political stability and security.

## **1. THE EUROPEAN GEOPOLITICAL MARGINALITY (1991-2001)**

By analysing the involvement of the EU in post soviet Caucasus and Central Asia, we can point out two different phases, between which the 11<sup>th</sup> September 2001 represented a geopolitical watershed. From 1991 till 2001, the European Union was relegated in a subordinate and marginal position relating to the regional geopolitical competition. Russia, United States, Turkey and China have emerged as the main actors in this geopolitical competition, pushed by their strategic needs and goals.

This European weak position was linked to the following factors: firstly the geographical distance, which has hindered the development of stronger economic and commercial relations and has prevented the EU from having a role to guarantee the military security and the political stability in the region; secondly, the lack of a shared political strategy of the EU as a single geopolitical player and the prevailing (and often contrasting) strategic interests pursued by the European member countries; thirdly, the European economic and politic weakness compared to the other geopolitical players. In fact, during the 1990s South Caucasus and Central Asia were not a priority in the European External policy, because the main attention was concentrated on the political evolutions in the Eastern Europe and in the Balkan region (Hunter, 1996, pp. 154-156).

In these first ten years, the EU did not plan to commit itself to a political strategy oriented towards post soviet space, and instead opted for the achievement of long-term goals in the region such as the strengthening of economic and commercial cooperation, the realization of infrastructures, the promotion of democracy, the Human Right protection, the development of civil society. In the European belief, the deepening of the commercial cooperation and the development of the economic and technical assistance could contribute to prevent conflicts, so ensuring the necessary support to these weak economies and the strengthen of their weak political independence (Muller, 2000, pp.192-193). The promotion of the

economy market transition and the development of democracy principles through technical and financial assistance were the main goals of the TACIS Program (Technical Assistance to the Commonwealth of Independent States), which ended in 2006.

Also the Partnership and Cooperation Agreements (PCA) are oriented to implement the economic cooperation, losing their potential role of a shared platform to develop a political dialogue.

In the second half of the 1990s, PCA were signed with Azerbaijan, Georgia, Armenia, Kazakhstan, Kyrgyzstan and Uzbekistan, while the post-conflict situation in Tajikistan deferred the PCA agreement to 2004. Bilateral relations between Turkmenistan and the EU are still governed by an Interim Trade Agreement (1998), pending ratification of PCA by the EU member countries and the European Parliament, because of the slow democratisation process in Turkmenistan (Laumulin, 2002, p.214)

Moreover, the EU had also the ambition to participate in the exploitation of the energy resources, by building a new east-west geoeconomic corridor emphatically called the “Silk Road of the 21st century”: the Transport Corridor Europe Caucasus Asia Project (TRACECA) and the Interstate Oil and Gas Transport to Europe Project (INOGATE) have had the function to face the problems linked to the landlocked geographic position of the central Asian economies as well as to offer them (and Azerbaijan) a new opportunity to exploit alternative commercial and above all energy routes to transport their oil and gas productions, bypassing Russian and also Iranian territories (Djalili and Kellner, 2006, p.97)

Concerning regional security cooperation, EU has always employed a “soft” approach to handle conflicts in the post soviet space, privileging actions and policies (such as the promotion of a political and human right dialogue, good governance and rule of law, the support of a democratisation process) aimed to reduce the impact of internal causes and distortions which affect the regional stability (Semneby, 2006). Consequently, EU has undertaken “soft power” initiatives to manage the the existing “frozen conflicts” in Caucasus (Nagorno-Karabakh, South Ossetia and Abkhazia), based on ethno-territorial issues (Tibold, Cillessen, 2006, pp. 6, 19-21, 31-35): however, this EU approach was also justified considering the geographical remoteness of the region, the lack of a unified military action (the EU may intervene only within NATO structures), the weakness of the Common Security and Defence Policy, while Russia and Turkey emerged as the main actors engaged to promote regional security cooperation.

## **2. THE GROWING EUROPEAN INVOLVEMENT IN THE REGION AFTER 11<sup>TH</sup> SEPTEMBER 2001**

After the 11th September 2001 and the following American military campaign in Afghanistan, the geographic position of Central Asia and Caucasus has gained strategic relevance in the international chess-board, and the security issue has become one of the most important concerns in the region, emphasizing the need to guarantee the stability and the security through a political cooperation with these republics, in order to prevent the destabilizing effects of these threats.

Ensuring the security and the stability of Caucasus and Central Asia has become one of the political goals of the EU in the region, to be achieved through the support of military operations in Afghanistan, the improvement of the regional cooperation in the economic, political and energy fields (Matveeva, 2006, pp. 53-54, 67, 83-89). In the NATO's strategy, Azerbaijan and Georgia became strategic bridgehead in order to reach Central Asia and Afghanistan, as feasible transit corridors considering Russian opposition and the non geopolitical feasibility of the Iranian route.

Furthermore, the support of regional security and political stability has been conceived as necessary precondition, which can allow EU to achieve other two relevant geopolitical targets:

- ▲ a “smooth” management of the EU enlargement process – with the integration of the Eastern European countries in 2004 – because following the accession of Bulgaria and Romania in the EU Caucasus region substantially borders with the European Union through the Black Sea.
- ▲ the achievement of the EU energy security condition by means the implementation of energy diversification strategy of supply sources and routes, based on the transport of Caspian and Central Asian energy resources to EU markets.

Since 2004 we can notice the growing European attention towards Southern Caucasus and Central Asia and the increasing involvement in the area, in order to deepen a political cooperation and to reinforce the European presence and visibility. This new approach has been justified by several reasons: the inclusion of the three Caucasian republics into the European Neighbourhood Policy in 2004 implied the need to draw up a wide external policy that should also involve the Central Asian republics, launching a political dialogue with a region which has become progressively strategic for the achievements of the European goals. After this eastern enlargement of the ENP, Central Asian republics have become “Neighbours of EU Neighbourhood”, implying a deepening of bilateral economic and political cooperation, however without prospecting a potential integration in the EU framework (European Commission, 2007, p.7).

The appointment of the EU Special Representative for South Caucasus in 2003 and the inclusion of the three Caucasian republics into the European Neighbourhood Policy must be interpreted as the first concrete steps of the EU in

order to enhance regional cooperation and bilateral relations. The main tasks of EUSR are to enhance the EU visibility and the efficacy of its policies, to support the development of the democracy, good governance and the protection of civil liberties and Human Rights, contribute to the prevention of conflict and to assist in conflict resolution (Council of the European Union, 2003).

The events and the political transformations in post soviet space labelled as “coloured revolutions” - the rose revolution in Georgia and the tulip revolution in Kyrgyzstan in 2005 (the first change in power in Central Asian independent history by means of a “peaceful” revolution) – the Andijan uprising in Uzbekistan and its violent repression, highlighted the persistent condition of instability in the region and accelerated the development of a European incisive political strategy: the EUSR for Central Asia was appointed in 2005, representing one important pillar in the new political approach of the EU in Central Asia, which has laid the basis for the successive new strategy of partnership adopted in 2007 (Liamine Salvagni, 2006, p.23).

The combination between the relevant issues of energy security (and the necessity to diversify the sources of supplies) and the unsolved threats over Caucasus and Central Asia’s political stability and security have pushed the EU to be more involved in the region, through the development of a regular political dialogue in order to build up the confidence of the political leadership for a better implementation of the European programs. As a matter of fact, the increasing strategic relevance of Caspian energy resources to strengthen EU energy security required a strong political initiative in order to enhance the energy cooperation with regional suppliers: the strategic aim to achieve a condition of energy security, by means of the energy supplies diversification, represents an important goal in the External Policy of the European Union, in order to reduce the dependency of energy imports from Russia.

The European feeling of energy insecurity and the necessity to realize a strategy of energy routes and sources diversification is linked to different problems. Following the enlargement of the EU in 2004 with the integration of the Eastern European countries, the issue of the energy security became more relevant because their adhesion in the European Union has implied an increasing energy dependency on Russian imports. Indeed most of these nations are completely dependent on one supplier for gas and oil imports, which is Russia: Estonia, Latvia, Lithuania, Bulgaria, Slovakia, Finland depend 100% on Russia gas imports, while Greece, Hungary, Austria are more than 80% dependent on imports from Russia. Moreover, Lithuania, Hungary, Slovakia and Poland are nearly fully dependent (more than 95%) on one oil supplier, Russia (Commission of the European Communities, 2008).

The Ukraine-Russia gas disputes in 2006 and 2009 and Belarus in 2007 for gas price and transit fee caused the disruption in Russian gas supplies to European countries (not only Eastern countries but also Germany and Italy) thus reaffirming Europe’s vulnerability in its dependence on imported Russian gas. Russia’s political

decision to cut off gas supplies to Ukraine - which is the main transit country for Russian energy imports to Europe - worried the EU because it showed Russia's unreliability as a long-term supplier and gave more impetus to implement a strategy of diversification of energy routes, developing new alternative pipelines (such as Nabucco) oriented to the European markets and bypassing Russian territories and Gazprom control (Cornell S.E., Nilsson N., 2008)

### **3. THE STRATEGY FOR A NEW PARTNERSHIP WITH CENTRAL ASIA AND THE EASTERN PARTNERSHIP: THE EU AS A POTENTIAL GEOPOLITICAL PLAYER**

The adoption of the Strategy for a new partnership between EU and Central Asia 2007-2013 proves the EU political will to deepen the relations with Central Asian republics and to pursue a long-term strategy, attempting to handle and to solve the existent problems and the negative distortions by means of a strong economic cooperation and a regular political dialogue (both bilateral and multilateral) with Central Asian presidents, in order to obtain their commitment for the adoption of social, political and economic reforms and to guarantee security and stability in the region. This strategy is conceived as a global action, which incorporates many aspects and issues where the EU will seek to intervene: stability and security (defined as strategic interests of the EU), good governance, democratisation, human rights, education, the promotion of the economic development, trade and investments, energy cooperation, the fight against common threats and challenges (Council of the European Union, 2007).

Concerning Caucasus, the 2008 conflict in Georgia has confirmed the vulnerability and instability of the region, pushing EU to enhance the relations and cooperation with South Caucasus republics within the new framework represented by the "Eastern Partnership" initiative. Through this initiative the EU aims to shape new association agreements including deep and comprehensive free trade agreements with those countries willing and able to enter into a deeper engagement and gradual integration in the EU economy (European Union External Action, 2009).

It is evident that a concrete and coherent implementation of these strategies enables the EU to become an important geopolitical player in post soviet region, mainly because the achievement of general political aims is closely linked to the realization and the development of a potential change process in the region. However, this geopolitical ambition of the EU must compete with the Chinese and Russian consolidated supremacy position in the region, considering their strong influence in the energy issues, in the security sphere and also in political terms. The EU must support and promote the development of a modernization process and reforms, presenting itself as a geopolitical alternative to China and Russia, instead

engaged to guarantee the status quo, more profitable for their energy and geopolitical needs (Boonstra and Melvin, 2008, p.1)

The EU can benefit of some potential *atouts* to extend its geopolitical influence: the EU is one of the most important donor institutions in the region, supporting specific assistance programs in Kyrgyzstan and Tajikistan and socio-economic reconstruction initiatives in the Georgian conflict affected areas; furthermore, the EU is an important commercial partner for the Central Asian republics (especially for Kazakhstan) and an attractive market, allowing them to diversify their exports; the EU has signed Memorandum of Understanding (MOU) on cooperation in the field of energy with the main regional hydrocarbon suppliers (Azerbaijan and Kazakhstan in 2006, Turkmenistan in 2008 and Uzbekistan in 2011). Moreover, from the perspective of post soviet republics an enhanced EU presence in the region could lessen Russian influence in security, political, economic and energy fields, allowing them to better implement a profitable “multi-vector” strategy in external policy, which aims to balance the interests of geopolitical external players through the diversification of relations and maximization of economic and political profits (Melvin, 2008, pp. 140-143).

But the accomplishment of this geopolitical ambition also requires the EU to coherently engage itself in the achievement of the necessary balance between energy and security needs and the promotion of the rule of law, human right and democracy values.

However, the first results of the strategy implementation have shown the lack of balance in the European approach to Caucasus and Central Asia, as the energy interests and the security issues (linked to the Afghan’s instability situation) are prevailing rather than a strong promotion of the democratisation process and the enhancement of civil society. If a partial improvement seems indisputable – through the regular involvement of the regional presidents and ministers in a political dialogue aimed to promote values like as democracy, human rights, freedom of press -, at the same time little real progress has been registered in these areas, confirming the impression that a *realpolitik* approach is prevailing in the European strategy

As a matter of fact, it seems evident that main geopolitical goal of the EU is focused on the Caspian energy reserves of Turkmenistan, Azerbaijan and Kazakhstan and on the Uzbekistan’s strategic role - for its geographic position - in order to support the NATO coalition in Afghanistan: following the planned withdrawal of NATO from Afghanistan, also the geographic position of South Caucasus region will become strategic for the transit of Western troops and equipment.

The strategic relevance of Caspian hydrocarbon resources and their favourable geographical location for transport routes to European markets (the ambitious Southern Gas Corridor, SGC) can play an important role in ensuring the EU’s energy supplies: the future SGC’s implementation will strictly depend on the realization of the Trans-Caspian energy corridor through which Turkmenistan,

Kazakhstan and (maybe) Uzbekistan should commit their oil and gas exports in order to reach Azerbaijan, Turkey and then European markets.

The current orientation in the external policy expressed by the Turkmen president Berdymuhammedow - based on the political will to diversify its energy exports and on the enhancement of international relations after the diplomatic isolationism of the Nyazov era - has encouraged the EU to develop tight relations in the political field with Turkmenistan. But mainly the huge energy gas reserves and the possibility to use them in order to implement the Nabucco pipeline have pushed the EU to increasingly involve Turkmenistan in an energy cooperation: according to the 2008 MOU on energy, Turkmenistan has committed itself to carry 10 bcm of gas annually to European markets, without clarifying the way to transport gas, considering that the lack of legal solution over the Caspian Sea status hinders the realisation of the underwater pipeline.

Despite the enhancement of the energy cooperation, we can observe really slow progress in the human right and democracy values issues, in the freedom of press, multipartitism and in the liberalization of a system defined as dictatorial by the international human right organizations. The human right dialogue, over which the strategy and the cooperation with Central Asia should be based on, has substantially failed because civic activists and independent journalists continue to have hurdles in their activities and political opposition is not legal yet. The EU believes that the tightening of relations, the involvement in a political dialogue could facilitate in the long-term the adoption of reforms, but it seems evident that also in the case of Turkmenistan the European energy needs are always prevailing (Denison, 2009, pp. 7-9)

In addition to gas and oil reserves availability, Azerbaijan's geographic position is a key factor which enhances its role as strategic partner in the EU strategy of energy diversification, within which Baku would play the role of relevant energy supplier: as a matter of fact, in a geographic-geopolitical perspective Azerbaijan is an obliged route for energy corridors transporting Caspian resources and planned to bypass Russian and Iranian territories. Furthermore, Azerbaijan could benefit from another strategic advantage linked to its geographic position: unlike other Caspian supplier - as Turkmenistan and Kazakhstan-, Azeri energy exports do not have to cross the Caspian Sea to reach Western markets.

In the last years Baku has undertaken some fundamental steps to support the SGC's realization: in January 2011, Azeri President Aliyev signed with the President of the European Commission Barroso a Joint Declaration on the Southern Gas Corridor which committed Azerbaijan to deliver 10 bcm of gas per year to EU markets (European Commission., 2011). Following the Azeri-Turkish agreement to realize the Trans Anatolia Gas Pipeline (TANAP), Azerbaijan has concretely engaged to play both the role of transit and supplier country within the SGC: this planned pipeline will be operational in 2017-2018 with an initial capacity of 16-17 bcm, which should reach 30 bcm in 2026 and 60 bcm after 2030 (Cutler, 2012).

Azeri strategic role for the implementation of the SGC and European projects of energy diversification has concretely limited EU's ability to criticise the non democratic nature of the Caucasian regime (Simao, 2001, p.49).

The relations between Uzbekistan and the EU worsened after the Andijan uprising and the refusal of Uzbek president Karimov to allow an independent international commission to investigate over the Andijan events. As a consequence, in 2005 the EU Commission adopted sanctions against Uzbekistan and suspended the PCA but later on geopolitical interests began to prevail splitting the EU member states between countries like Germany, France, Spain – which have claimed that the sanctions had not proven effective and should therefore be dropped altogether - and the Netherlands, Ireland, Denmark, Sweden and the United Kingdom which want to maintain the sanctions, which were to be extended until the Uzbek government met the EU's requests and showed a real will to improve the human right situation. These different positions of the EU member states could squander the European political strategy and undermine its credibility in the human rights protection field. This decision to resume the dialogue is based on the belief that without Uzbekistan it is not possible to fully implement the Central Asia strategy: so it is necessary to bring Uzbekistan in the west geopolitical field, by means of a close cooperation and of a better commitment of this nation to the Human Right dialogue, monitoring the results permanently. Since the EU extended the suspension, the Uzbek government has done few steps to demonstrate a genuine commitment to the human rights issues (International Crisis Group, 2006)

In the security field, EU appears unable to confront with some important and strategic challenges - as some recent events shown - underlining the European difficulties to consolidate its influence in the region. The inter-ethnic clashes in Osh (Kyrgyzstan) represented an important test to evaluate the EU political influence and its capacity to intervene in the region: however, in order to manage the crisis the EU action was limited at the economic issue (allocating 12 million euros for aid assistance and social programs) while the EU political initiative substantially failed. The proposal to send a police mission to Osh under the aegis of OSCE was rejected by the Kyrgyz authorities which perceived it as an external interference.

In the Georgian-Russian war the EU successfully played a mediation role, pushing for the end of a conflict potentially dangerous for the security of energy routes and regional stability. In spite of its political and diplomatic involvement, EU failed to have a common position towards the self-proclaimed independence of Abkhazia and South Ossetia: this situation reflected the ideological fracture between Eastern European countries and "old Europe" countries (France, Germany, Italy), which avoided criticism towards Russia in order to preserve their strong economic and energy relations with Moscow.

Concretely, the limited response of the EU to the unrest in Kyrgyzstan and its inability to solve the conflict in the region of Nagorno-Karabakh illustrate the limits of the peace-making capacity of the EU: even if EU recognizes “frozen

conflicts are an impediment to the economic and social development and hinder the improvement of the standard of living of the South Caucasus region, as well as the full development of the Eastern Partnership of the ENP

## CONCLUSIONS

The potential geopolitical role of the European Union in South Caucasus and Central Asia and the results of the full implementation of its policies must be evaluated in the long term. However, the EU is obliged to quickly develop a coherent and shared External policy and also a common energy policy in order to exercise a real influence in the region.

One of the future main tasks of the EU is the necessary balance in the achievement of the strategic goals, because the priority given to the energy needs is too evident. If the strengthening of the energy cooperation is to be considered one of the main results obtained with the European strategy, little progress have been made in the democratisation process and liberalization of the political system. Consequently, EU should focus a more incisive political and diplomatic effort on obtaining a real commitment of Central Asian and Caucasian presidents, insofar only theoretically engaged in the promotion of the democratisation and the human right protection. The EU continues its dialogue with Turkmenistan, Uzbekistan, Azerbaijan, which have made little progress in these fields and where there are widespread limitations of the political dissent, lack of freedom for press and media, authoritarian management of the power. This situation is seriously damaging the European image and credibility as a defender of civil liberties and human rights, adding to the accusation of a double standard adoption in the international relations, depending on the geopolitical or energy relevance of the nations.

In the security field, the limited response of the EU to the unrest in Kyrgyzstan and its inability to solve “frozen conflicts”- conceived as the main impediment to the economic and social development in Caucasus – have clearly showed the limits of its peace-making capacity.

The EU should promote a strong bilateral and multilateral cooperation with regional geopolitical superpowers, in order to enhance its influence: a potential step could be the creation of a political dialogue forum, within which external and regional actors could achieve their common interests like ensuring Central Asia political security and territorial stability, fighting against international terrorism, in order to improve the economic relations and cooperation on a regional and international level

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# THE EU - MOROCCO RELATIONS IN THE FRAMEWORK OF THE EUROPEAN NEIGHBOURHOOD POLICY

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**Abstract:** *As a large-scale political and economic project, the EU aims to provide a stable framework for development and growth within it and to develop good relations with its immediate vicinity. Thus, in 2003, the EU proclaims the European Neighbourhood Policy, which draws attention to the fact that its purpose is to address multiple chapters of the political life. The EU seems to have thought that the ENP is the optimal solution between a policy of continuous enlargement and a foreign policy, considered to be too general to respond efficiently and effectively to issues that must be addressed differently, depending on the structural conditions of each actor. In this context, the European Community and later the EU, have focused on the Southern Mediterranean area since the 60's, with the two parts proposing and developing close economic, social and trading relations. Morocco, as a Southern Mediterranean country, has benefited from the relations with the EU, conducted in the general scheme of the ENP, expressed through a significant economic growth and an increased level of security. On the other hand, Morocco has also experienced a series of changes in society, in terms of economic and political behaviour, identifying a departure from the traditionalism of the Arab culture. We believe that these social changes are an indirect consequence of the cooperation between Morocco and the European Union, within the framework of the ENP.*

**Keywords:** European Neighbourhood Policy, European Union, Morocco, Barcelona Declaration, Union for the Mediterranean.

## INTRODUCTION

The recent developments in the international environment have generated a series of determinant mutations for the relationships between actors, and equally for the responsibilities of each actor in the international environment. On the other hand, the increasing assertion of the European Union in the international relations brought into the general context of the international system a wide range of new relationships between actors. These new realities of the international system showed that in the third millennium security cannot be thought of only in military terms, and the security policies require a more comprehensive approach than in the past. It is also

obvious that the socio-economic progress and development cannot be related strictly to economic parameters nor with their own territory.

Analyzing the European Union as a global actor with a federative character that assumes a process destined to generate security and social development in the area of the member states, we observe that the EU understood the need to address regional security and economic development. The European enlargement process was also based on a desire to constantly increase the area of a neighbourhood cooperation for each member state. When it could not resort to the European enlargement for the increase of the cooperation area, the EU has developed another type of regional cooperation that can be used in defining what is a good neighbourhood. These new relationships were included in the general scheme of the Neighbourhood Policy, as it was formulated by the EU and implemented since 2004. The major importance that we give to the European Neighbourhood Policy, determine us to make a further analysis of what the ENP is in the regional relations between the EU and other state actors in the region, and on the effects that the ENP managed to generate in the security and economic development of these countries, in only 9 years of activity.

The decision to focus our research on the ENP is generated by the argument that the future of the European Union in relation to the neighbourhood will make the enlargement policy a second priority and will give a greater promotion to the Neighbourhood Policy.

## **1. THE EUROPEAN NEIGHBOURHOOD POLICY – GENERAL ASPECTS**

The year 2004 is representative in terms of European integration as the EU increases the number of member states with 10 new Central and Eastern Europe states. In addition to their integration problems, there are security issues because the Union's border was in common with some neighbours that were in a process of development, with institutional and democracy development issues.

The European Union was unable to expand, requiring a period of absorption of the new integrated states, but did not want to create any lines of separation between a united and integrated Europe and its neighbours. (Năstase, 2007) Thus, in December 2003, the EU has developed "The European Security Strategy" which states the necessity of creating an area of security and good neighbourhood through the promotion of common values to prevent the outbreak of conflicts or areas of cross-border criminality, affecting the security of the Union. (European Security Strategy, p.7)

In this context, on March 11, 2003, the European Union proclaims the European Neighbourhood Policy, whose primary purpose is to promote areas of prosperity and good neighbourhood at the EU's borders. The European Neighbourhood Policy is a compromise between the desire of the new EU

neighbours to join the EU structures and the impossibility of the EU to accept new members (Drăgan, pp.69-75).

The European Neighbourhood Policy goes beyond mere cooperation between neighbouring countries, creating a new type of relations between the European Union and the EU neighbours. Romano Prodi said that the essence of the new approach of the Union towards its neighbours is “to share everything but institution” (Drăgan, p.70).

## **2. THE LEGISLATIVE FRAMEWORK OF THE ENP**

For a better understanding of what the neighbourhood policy is among the European policies, we chose to analyze the legal basis of the ENP.

The European Neighbourhood Policy was originally outlined in the Commission Communication on Wider Europe in March 2003. The Commission Communication refers to 2004, when the EU's borders will expand significantly, covering 10 new member states, and the fact that these new geopolitical developments in Europe should not be the source of a forthcoming division of Europe, but rather must generate a framework for cooperation and security throughout Europe. The enlarged EU must, according to the Communication, aim at promoting prosperity and creating an area for free trade in the immediate neighbourhood of the European Union. (European Union Commission Communication on Wider Europe)

According to the Commission's position, although in Article 49 of the EU Treaty any state may apply to be part of the European Union, in essence, the enlargement issue is geographically conditioned. In this context, a neighbourhood policy represents the legal framework to facilitate the relations between the EU and countries in the immediate neighbourhood, an opening to the European system of values and norms, but without question the issue of joining the EU, on short or long term. The Commission proposes an approach to proximity and neighbourhood beyond the discourse of European enlargement, without altering the bilateral relations with the neighbouring countries. (European Union Commission Communication on Wider Europe, p.5)

In May 2004, the Commission submitted a report on the European Neighbourhood Policy which established in concrete terms how the EU wants to strengthen the relations with the countries concerned by this policy. "European Neighbourhood Policy Strategy Paper", which established the framework of the new policy, identifies two primary objectives of the European Neighbourhood Policy, as follows: (Regulation EC No.1638, 2006, p.3)

- Creating a “circle of friends” who share the European values and principles;
- Improving the access to the Single Internal Market and to the EU technical assistance.

The European Neighbourhood Policy aims at achieving two key types of integration: political integration, respectively economic integration. The political integration refers to the EU support and expertise available to the partner countries to prepare and implement key reforms that promote democracy. The economic integration refers to the financial support of some reforms and priorities to facilitate the access of the partners to the EU market.

In order to achieve the assumed goal, the ENP partnership involves:

Country reports- these are prepared by the Commission in the first stage of the ENP partnership, aiming an assessment of the political and economic situation, as well as the institutional and resort aspects of each state, to allow an accurate assessment of the time when the relationships can be enhanced or not, then they are sent to the Council, which decides on the next steps to be followed.

The ENP Action Plans- once the approval of the Council is obtained, after the evaluation of the country report, the documents adapted for each partner based on the needs and capabilities of each country and the EU interest in the region, are negotiated. The action plans define a common position that proposes a political and economic reform agenda through medium-term priorities. These action plans include political dialogue and reforms, economic and social cooperation and development, issues related to market and trade.

Monitoring- from the beginning of the implementation of the action plans, a monitoring process of the level of accomplishment of the medium-term priorities is simultaneously initiated. The monitoring belongs to the Commission, which issued a series of progress reports devoted to the analysis of the implementation of action plans in the partner countries.

In January 2007 a funding mechanism was launched, called the “European Neighbourhood and Partnership Instrument” whose provisions were included in Regulation (EC) No. 1638/2006 of October 24, 2006. Article 1 of the Regulation (EC) No. 1638/2006, establishes that the purpose of the European Neighbourhood and Partnership Instrument is to offer development assistance in areas regarding prosperity and good neighbourhood. It stipulates that the assistance will be used in the interest and benefit of the partner countries and for cross-border and cross-regional cooperation. (Regulation EC No.1638, 2006, p.3).

Before the implementation of the ENP in 2004, the European Union, in its attempt to create an area of prosperity and stability, has focused its attention on the Southern neighbourhood since the beginning of the 90's, a sign that the European policymaking authorities understood the vital importance of the Southern neighbourhood for the EU's security. For nearly a decade, the Euro-Mediterranean Partnership was the legal framework of the EU's actions in the southern periphery. The Euro-Mediterranean Partnership covers a wide range of issues related to the bilateral and regional cooperation in the economic, political, social and cultural domains. The critics have condemned this partnership's modest results, in relation to the purpose and targets assumed in Barcelona. (Del Satro, Schumache, 2005, p.17)

Previously known as the Barcelona Process, the cooperation agreements were re-launched in 2008, under the name Union for the Mediterranean that promotes economic integration and democratic reforms within the 16 neighbouring countries in Northern Africa and the Middle East.

In continuation of this article we will analyze the role of Morocco in the Mediterranean region, and we will evaluate the progress and the integration level of Morocco in the context of cooperation with the European partners.

### **3. THE BEGINNING OF THE EU – MOROCCO RELATIONS**

Morocco, an emerging economy, is the fifth power of Africa, with a growth rate of 6.5% annually. (Şuteu, 2008) As an emerging power in Northern Africa, Morocco enjoys free trade agreements with the EU, the U.S.A., the Arab states and Turkey.

The relations between Morocco and the European Community began in the 60's. Later, in June 1969 they signed a Bilateral Agreement for a period of five years, which will be replaced in 1976 by a Cooperation Agreement in the framework of the global Mediterranean policy of the EEC, initiated in 1972.

Hassan II decided in July 1987 to submit a formal proposal to join the EEC, being encouraged by the expansion process of the European Community. (Şuteu, 2008, p.92) Haddadi shows that the letter sent to the President of the Council of Ministers had 3 arguments: Morocco's compromise regarding the development of a free market economy, the strong economic relations with the EC and the democratization of political life. The same author underlined the fact that the democratization part was presented exclusively in terms of development and consolidation of a multi-party political system and the free movement of local and international media without reference to the human rights issue. This application was rejected based on the fact that Morocco was not a European country. (Haddadi, 2002, p.151)

In January 1992, Morocco was affected by the contents of a new provision in the Renewed Mediterranean Policy (RMP) which allowed the European Parliament to freeze the budget when there were serious violations of human rights. In the case of Morocco, the Parliament decided to freeze the fourth financial protocol because of the abuses against human rights set out in the United Nations Resolution 660 regarding Western Sahara but also because of the deplorable conditions of the political prisoners. This decision was followed by a response from both Morocco and the EU governments.

From November 1995, the EU-Morocco relations develop in the EMA. Thus, in February 1996, a Bilateral Association Agreement between Morocco and the EU was signed, in order to support the Barcelona Declaration and expresses the willingness to work together for the achievement of the economic, political and socio-cultural objectives. The Euro-Mediterranean Association Agreement entered

into force on March 1, 2000, (Baracani, 2007, p.93) thereby achieving a high degree of institutional organization in the relations between the EU and Morocco.

#### **4. THE ENP REPORT AND THE ACTION PLAN 2004**

The launch of the Neighbourhood Policy has opened the way to a strengthened cooperation between Morocco and the European Union. Morocco was one of the first countries that agreed with the EU on an Action Plan under the ENP. The Action Plan concluded under this new scheme of tackling the bilateral relations has the role to support the development and promotion of policies and measures to promote economic growth, social cohesion and employment, poverty reduction and environmental protection, thus contributing to the long-term objectives of sustainable development. With a new institutional framework for the development of bilateral relations, the EU believes that Morocco will have a number of benefits, including:

- Enabling Morocco to gradually take part in the European programs and policies;
- Increasing the scope and intensity of political cooperation through strengthened political dialogue;
- Opportunity for economic, legislative convergence, mutual openness of the economies of the two partners, the continuous reduction of trade barriers, in order to stimulate economic growth and foreign investments;
- Increased financial support: the EU is committed to provide increased financial support to achieve all the key points set out in the Association Agreement and the Action Plan.
- Deepening economic relations with the European Union Member States;
- Establishing a constructive dialogue in order to eliminate visa and support the integration of the community acquis.

The Action Plan sets out a series of priority actions, including a special attention to the following aspects:

- ❖ Follow the legislative reforms and the application of international provisions in respecting and promoting human rights;
- ❖ Strengthen the political dialogue on the CFSP or ESDP, and strengthen cooperation to combat terrorism;
- ❖ Negotiating an agreement on services trade liberalization;
- ❖ Develop an attractive climate for foreign direct investment, economic growth and sustainable development;
- ❖ Cooperation on social policy in order to reduce poverty and vulnerability of the population, and in order to create sustainable and stable employments;

- ❖ Support for education and training, scientific research, information technology, regarded as decisive factors for long-term development of Morocco;
  - ❖ Effective management of migration flows, including the signing of a readmission agreement with the European Community to facilitate the free movement of persons in accordance with the Community *acquis*, in particular by examining the possibilities of relaxing the formalities for certain categories of persons regarding the visa;
  - ❖ Development of the energy sector, including infrastructure and safety.
- Priorities for democracy and rule of law:
1. Strengthening administrative bodies that ensure the fulfillment of democratic practices and the rule of law;
  2. Increased cash resources to facilitate access to justice and rights;
  3. Cooperation in the fight against corruption in justice.

Priorities for human rights and fundamental freedoms:

1. Ensure the protection of human rights and fundamental freedoms in accordance with international regulations;
2. Freedom of association and expression;
3. Strengthening the rights of children and women;
4. Guaranteeing fundamental social rights.

What is important to note is that the priority contained in the Action Plan referring to the need to reform the Penal Code to include a definition of torture under the UN Convention against torture was adopted. Thus, on December 28, 2004, the Moroccan government adopted a law that improves Penal Code by including the prohibition of torture. (Baracani, 2007, p.98)

Among the most important advantages of the participation of the ENP countries is improving cross-border cooperation, access to the new financial instrument, the European Neighbourhood and Partnership Instrument (ENPI), which on January 1, 2007 replaced MEDA and TACIS, the existing EU support for the promotion of regional and sub-regional cooperation initiatives and processes. (Bordeianu, 2007, p.25)

The Strategic Report 2007-2013 provides the strategic framework of EU aid for 2007-2013. It collects the EU cooperation objectives, the policy response to requests from Morocco and priority areas of cooperation based on a comprehensive assessment of the political program of the partner country and the political and socio-economic situation. The elaboration of the strategic report is the result of continuous monitoring of the political and economic situation in Morocco by the Commission, in close cooperation with representatives of the government and member states.

Regarding the cooperation in 2007-2013, the EU and Morocco have established five priority areas for financial cooperation: social policies development,

economic modernization, institutional support, good governance and human rights and environmental protection. (European Commission)

Morocco received the new ENP “affectionate, and cooperated for its adoption”. (Commission Staff WP ENP Country Report Morocco, 2004) In the Morocco report of May 12, 2004, the Commission describes and assesses the situation regarding the democratic development of political institutions, respect for the rule of law, human rights and fundamental freedoms. It is important to analyze the weaknesses to see if they have been resolved and have become priorities in the Action Plan.

Concerning the “democracy and rule of law”, the Commission report highlights six weaknesses: firstly, the principle of separation of powers mentioned in the Moroccan Constitution of 1962 is not respected in practice because the king reserves a number of large executive powers and enjoys legislative power; secondly, it is observed that the Parliament's powers are still limited; thirdly, the political parties are institutionally weak and suffer from a high degree of centralization; fourthly, it highlights the need to ensure the impartiality of judges and to improve the access to justice; fifthly, it is observed that the administrative capacity is limited; lastly, corruption is a serious problem and constitute one of the main causes of the low level of development in Morocco.

Regarding the fundamental freedoms and human rights, the report notes the following disadvantages: the unequal enforcement of the law on human rights, the non-ratification of some international instruments to protect human rights, the application of legislative limits on press freedom, women discrimination, not recognizing the cultural and linguistic rights of the Berber community. (Baracani, 2007, pp.95-96)

Regarding the weaknesses, the Commission report does not collect that elections are a mechanism to co-opt the elite, not an environment of political representation. The report does not mention the need to ensure the independence of the judiciary and legal responsibility, does not mention that they participate in the game of influence instead of carrying out a function of political representation, it does not identify corruption as a framework of interests involving the armed forces, major companies and monarchy. (Baracani, 2007, p.96)

Since 2004, Morocco has asked to go further in cooperation with the EU member states, requiring an Advanced Status.

In a Joint Statement of October 2008, as part of the seventh session of the Association Council between the European Union and Morocco, the decision to substantially strengthen the collaborative relationships, in terms of an advanced status requested by the Moroccan authorities was pointed out. (Jaidi, 2009, p.157) The Advanced Status intended to give a new impulse to the EU-Morocco cooperation as well as cooperation with other partners in the ENP. It aims at strengthening the political dialogue and consolidating the joint decision mechanisms, and increasing the visibility of the collaboration.

Under the new Advanced Status, Morocco becomes more than a partner state of the Union, but still far from the EU membership. The Advanced Status establishes a process of evolution in the common economic area, based on the European Economic Area rules and will cover new areas such as intellectual property, movement of capital and sustainable development. Furthermore, the new Statute offers Morocco access to the European security agencies.

Concerning the political dialogue, the Advanced Status opens the possibility of organizing summits between the Kingdom of Morocco and the European Union to address distinctly the issues of common interest. The first post-Lisbon summit between the EU and a third country, organized in Granada (March 6-7, 2010) had Morocco as dialogue partner, sign of the importance given by the EU to this country in the Mediterranean region, in terms of promoting peace, security and sustainable development in the region.

The main issues discussed were related to foreign and security policy, social policy, taking into account the issue of migration, respectively the development of closer relations with Morocco to support economic growth and political progress. (EU Calendar, 2002)

The Summit is part of the Advanced Status between Morocco and the EU, based on a Joint Document intending to strengthen the bilateral relations, adopted in the Association Council of October 13, 2008. This status highlights the importance of Morocco among the Mediterranean countries. The Summit adopted a Joint Statement of 9 pages, reproducing the content of the Joint Document. (Martin, 2012, p.365)

The only concrete decision of the Summit was the allocation of 580.5 million euro (Magharebia 2011) for the EU-Morocco cooperation for 2011-2013 (adopted on March 3, by the European Commission).

One of the most surprising elements of the Statement is the absence of any specific reference to social agencies or civil society, beyond reaffirming the importance to „involve new actors and to stimulate the consultation areas between civil societies”. (Press Rapid 2010) However, the civil society has made an appearance at the summit, on March 6-7, with Granada hosting four events of social collectives. The biggest demonstration was organized by the International Conference in support of the Saharawi people, which took place under the slogan , “No freedom, no human rights. No to the Advanced Status with Morocco!” (Martin, 2010, pp.47-49)

The eloquent success of the summit was the symbolic value (the fact that it was concluded), as different European and Spanish diplomacies have noted.

In conclusion, the formalization of the Advanced Status determined the mobilization of all types of interests and social groups against a deepening of the Euro-Moroccan relations under the existing conditions, focusing on the lack of reforms, especially on human rights.

In November-December 2009 there was an initiative of the European Parliament demanding the suspension of the Advanced Status with Morocco, something judicially reckless, to the extent that until it is not materialized into a new Association Agreement or Advanced Neighbourhood, the Advanced Status is nothing more than a declaration of intentions without any legal value. (European Parliament 2009)

## CONCLUSIONS

In this article, we were able to highlight the fact that the European Union uses the European Neighbourhood Policy as a security tool. In other words, the ENP is not an economic or enlargement policy, but rather a policy of promoting security in the border areas of the European Union. The partnerships of the ENP and the ENP instruments used to promote certain standards, generates a policy image of a holistic approach to security issues. Through the ENP, the EU addresses soft issues of security, as environmental security, economic security, societal security or institutional security avoiding hard issues of security, such as military security. The European Neighbourhood Policy works towards the establishment of the general framework necessary from the institutional and legal point of view, allowing the intensification of contacts between the EU and countries in the immediate neighbourhood, through a comprehensive approach.

From the case study analysis, we can say that the European Union created the European Neighbourhood Policy in the context of a challenge of the future enlargement of the Union. Given that the Union is unable in the present to support a comprehensive process of enlargement and taking into account that the enlargement of the Union is a geographically limited reality, the ENP appears as a compromise solution. Through the ENP, the EU does not remove the potential dialogue partners, avoiding at the same time to assume commitments that are difficult to respect.

Taking into consideration the specific case of Morocco, we observe that the geographical limitation was not an impediment in the development of EU-Morocco relations. According to the European Union Treaty, any country that respects human rights, rule of law and democratic values may apply for membership of the European Union. This does not mean, however, that all European countries have this intention, or that the EU must accept all applications. The geographical position is very important, a clear proof of this fact is that Morocco's membership application of 1987 was refused based on the fact that it is not a European country. However, the EU appreciates Morocco's potential as a partner in promoting security and stability in the Mediterranean region.

Regarding the close proximity, the EU has managed to use the ENP in a much more effective way than any other policy, in order to achieve the purpose of promoting regional security. The ENP, as this study indicates, becomes an extremely effective and useful tool in the management of regional security.

Morocco is one of the ENP partners that plays a pivotal role in the promotion of security, European norms and principles and universal democratic values in the region of Northern Africa. If Morocco remains faithful in its commitment, we believe that there is a real chance that Morocco will become part of the European economic market, becoming a pole of stability in the region. Morocco's economic progress depends on assuming these medium and long term commitments with maximum efficiency.

We conclude this article by saying that the European Neighbourhood Policy serves the purposes of the EU, having the potential and necessary levers to satisfy these regional security objectives.

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## **RISE OF BRICS: OPPORTUNITY OR THREAT FOR THE EUROPEAN UNION?**

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**Abstract:** *The term BRICS is no longer just a catchphrase coined around trade and international relations, it is a reality and it exists as a transcontinental foreign-policy actor and the European Union cannot longer ignore its influence on the global scale. This paper aims to analyze the opportunities and challenges in the international relations between the European Union and BRICS. The study puts into balance the EU - BRICS cooperation in terms of trade in goods and FDI flows between the two. As findings we state that EU should start talking in a collective manner, intensify trade and promote effective multilateralism in order to set strategic partnerships. On the other hand, the economic growth of BRICS defied the economic crisis in which the European Union has been sinking since 2007 and other major players shifted their attention from the EU towards the emergent markets - the United States of America. From this perspective, the BRICS are threatening the EU with major loses in the same way it offers opportunities - trade and FDI's - vital for any economy. Whether the EU can or cannot understand - the BRICS are the 'rock stars' of today's international economic arena - and the EU should cultivate its cooperation with them.*

**Keywords:** BRICS, the EU, emerging markets, trade, FDI

### **INTRODUCTION**

At the end of March 2013 the Fifth BRICS Summit took place in Durban, South Africa, where the leaders of Brazil, Russia, India, China and South Africa met to discuss political and economic coordination reaffirming their commitment to the promotion of international law, multilateralism and the central role of the United Nations (Joint Statement of the Fifth BRICS Summit, Durban, March 2013). The term BRICS is no longer just a catchphrase coined around trade and international relations, it is a reality and it exists as a transcontinental foreign-policy actor and the European Union cannot longer ignore its influence on the global scale.

In 2001 Jim O'Neill Goldman Sachs economist coined the term BRIC in order to define the flagship nations of the emerging economies – Brazil, Russia, India and China. In December 2010 South Africa was invited to join the club in order to confer it a worldwide perspective and legitimacy. With its first Summit held in June 2009 in Yekaterinburg, BRICS is the first coalition that prefigured

„in the mind of the economists”, and only subsequently turned into „reality” (Oehler-Şincai, 2011, 74). What was to be a trend in the international foreign policy arena turned into an important collective voice that strives for recognition and participation in the decision-making processes around the global agenda on issues like food and energy security, climate change, weapons of mass destruction proliferation, international terrorism, international economic and financial situation including institutions of global governance such as UN, IMF, World Bank Group.

The European Union is the most popular and the most successful empire in history because it does not dominate, but because it disciplines (Khanna, 2008, 29) or in other words the EU expands its influence using the so called *soft power*. The EU is the world’s leading exporter and importer, but in the last 5 years it had been relatively successful in defending its market shares. The EU plays a more important role in BRICS trade than vice versa; among them, Russia is the most important EU export partner and China, the largest import partner (Havlik, Stöllinger, 2009, 1). There is no doubt that China’s emerging economy is outstanding and it rises as a serious challenge for the EU’s industrial competitiveness.

Taken as a trans-continental group, the BRICS nations do matter in terms of population, land surface, and economies; their sizes are impressive. Together, the BRICS represent 40% of the world’s population, 25% of land surface and approximately 25% of the world’s GDP (van Agtamael, 2012, 62).

The objective of this paper is to assess the nature of the relationship between the EU and the BRICS with a focus on trade and FDI’s, to evaluate the opportunities and the challenges brought by the rise of the BRICS in the context of the economic crises and to analyze the EU’s strategic partnership with the BRICS, with a special focus on Russia. Hence the paper is divided into 2 main parts as following: Part I - The EU – BRICS strategic partnerships, Part II - Trends in trade and FDIs.

## **1. THE EU – BRICS STRATEGIC PARTNERSHIPS**

In her speech on the BRICS and other emerging powers on 1<sup>st</sup> February 2012, the EU High Representative for Foreign Affairs and Security Policy, Lady Catherine Ashton, stated that the EU needs “to invest in these countries as strategic partners in a very strong and dynamic, bilateral relationship [...] We need to do that because it is in our interest to do it” (Europa.eu, SPEECH/12/56, 2012).

The EU has strategic partnerships with all BRICS countries and, although it does not recognize the BRICS as a group, it negotiates through bilateral discussions with each. Brussels does not consider the BRICs capable of acting together on any major global issue. Even though the BRICS countries have

certain aspects in common, such as large populations (aggregated share of 42.6% of world total, as compared to 7.7% in EU), large land coverage, rich natural resources (including natural gas, oil, coal, rare earth, arable land) and rapid economic growth especially in the years before the world's economic and financial crises and while trade amongst all entities is vigorous, there are equivalently large differences, economically, socially and politically, between these five countries and the EU (Eurostat, 2012).

The European Union has established the groundwork for strategic partnerships with each of the BRICS members since the early 1990's, but it was clearly a need for upgrade brought by the changes in the geopolitical climate of the new millennia. The world is slowly sliding through the vehicles of globalization into the realm of multi-polarity. Member states of the EU have important connections either historical or commercial with BRICS member countries such as Portugal with Brazil, or the United Kingdom with India. For instance Brazil was keen on receiving support for its bid to gain a seat on the UN Security Council, while Portugal during its EU presidency actively sought to improve European trade ties with Brazil due to the stalled trade negotiations between the EU and Mercosur (Policy Department DG External Policies, 2011, 24).

### **1.1. The EU – Brazil Strategic Partnership**

With Brazil, the EU has a framework cooperation agreement from 1992. The first EU-Brazil Summit was held in Lisbon in July 2007. In the Communication of the Commission to the European Parliament and the Council, of 30 May 2007, entitled: "Towards an EU-Brazil strategic partnership" it is stated that "Brazil is central to the success of the EU-Mercosur negotiations, an EU priority strategic objective, which have not come to a conclusion due to the lack of progress in the trade chapter, thus preventing so far the establishment of a wider strategic association between the EU and Mercosur" (Europa.eu). Moreover, the commission recognizes that EU-Brazil dialogue has not been sufficiently exploited and carried out mainly through the EU-Mercosur dialogue before the 2007 EU-Brazil Summit. Central topics of the new partnership include effective multilateralism, climate change, sustainable energy, the fight against poverty, the Mercosur's integration process and Latin America's stability and prosperity. Trade is another important subject of dialogue, as Brazil is the most important market for the EU in Latin America while the EU is Brazil's main trading partner. Brazil is an efficient agricultural producer and the single biggest exporter of agricultural products to the EU.

## **1.2. The EU – Russia Strategic Partnership**

Russia is the most important BRICS member partner of the EU and the nature of the bilateral relations between the two is mutually beneficial and complicated. The EU is by far Russia's main trading partner, but also the most important investor in Russia. Trade between the EU and Russia remains largely concentrated on the energy and minerals sectors. The ongoing cooperation with Russia is based on 4 specific policy areas. These "common spaces" cover Economic issues and the Environment; Freedom, Security & Justice; External Security; and Research & Education, including cultural aspects. The EU and Russia concluded a Partnership and Co-operation Agreement in 1994. Negotiations on a New EU-Russia Agreement were launched in June 2008. The New Agreement updated and replaced the existing Partnership and Cooperation Agreement, providing a comprehensive framework for EU-Russia relations.

## **1.3. The EU – India Strategic Partnership**

The EU and the Republic of India benefit from a long-standing relationship going back to the early 1960s. The Joint Political Statement of 1993 and the 1994 Co-operation Agreement, which is the current legislative framework for cooperation, opened the door to a broad political dialogue, which evolves through annual Summits, regular ministerial and expert level meetings. In 2004 India became one of the EU's first-rank "Strategic Partners". Since 2005, the Joint Action Plan has helped to realize the full potential of this partnership in key areas of interest for India and the EU. The JAP can be considered as the Road Map in the EU-India bilateral relations since then, and it has proved to be an efficient mechanism to develop dialogue. The primary objective of the JAP was to improve the EU-India relations in the context of a strategic partnership. JAP also proposed that there is a need to cooperate on sustainable development, protecting the environment, mitigating climate change and fighting poverty. The EU is India's largest trading partner and main source of foreign inward investment, whereas India is only the EU's 14th trading partner. India needs to further open up its market and accelerate the market reform to realize the potential of its market. It must address such matters as customs tariffs and the many non-tariff trade barriers, as well as considerably improving its infrastructure.

## **1.4. The EU – China Strategic Partnership**

The EU relations with China were established in 1975 and are governed by the 1985 EU -China Trade and Cooperation Agreement. According to the

European Commission, “China is the single most important challenge for the EU trade policy.” (Leal-Arcas, 2008, 20). The EU is China’s biggest trading partner, while China is the EU’s largest source of imports and second largest two-way trading partner. To reflect the depth and breadth of their Strategic Partnership, the EU and China decided in 2010 to upgrade their bilateral relations on foreign affairs, security matters and global challenges such as climate change, the recovery of the global economy. Annual summits and regular political, trade and economic dialogues are held, including over 50 sectorial dialogues and agreements, ranging from environmental protection to industrial policy, education or culture.

### **1.5. The EU – South Africa Strategic Partnership**

South Africa is EU’s largest trading partner on the African continent, being the most vivacious economy, rich in natural resources and at the confluence of the most important sea trade route. Intriguingly, it appears that the most recent of the strategic partnerships with the BRICS – South Africa is also the most institutionalized one. Unlike the others, EU-South Africa are already long in the process of the implementing a free trade agreement; the two sides maintain a regular security dialogue - South Africa has participated in an EU-led peacekeeping operation (Operation Artemis, 2003, in Democratic Republic of the Congo) and South Africa is also by far the biggest recipient of development aid. The significance of South Africa for the EU was consolidated with the establishment of a strategic partnership in 2007. The strategic partnership has two main pillars: enhanced political dialogue on issues of shared interest like climate change, the global economy, bilateral trade, and peace and security matters and policy dialogues and sectorial cooperation on a broad range of areas (environment, science and technology, transport, space, etc.). (European Commission, MEMO/12/677, Brussels, 17 September 2012)

## **2. TRENDS IN TRADE AND FDI**

In the past 20 years, the world experienced economic growth rates once unimaginable in countries with paramount poverty, political instability and social inequities. The BRICS nations fit into previous description and to a certain degree still fit. Brazil is famous for the poverty in the ‘favelas’ and the high rate of criminality, Russia for its oligarchs, India being the nation estimated to have a third of the world's poor with 68.7% of the 1.3 billion population living on less than US \$2 per day (World Bank, 2011), China for its constant violation of international environmental policies and South Africa, trying to leave behind the apartheid legacy. Beyond all these issues that separate the BRICS and the developed world if one would look around at the dawn of the new millennia

would notice what Fareed Zakaria called “the rise of the rest” – the world’s tallest building is in Dubai, the world’s richest man is a Mexican, the world’s largest publicly traded corporation is Chinese, the world’s biggest plane is built in Russia and Ukraine, the world’s leading refinery is under construction in India, the world’s largest factories are all in China, the world’s biggest movie industry in terms of both movies made and tickets sold is Bollywood, not Hollywood, the world’s biggest shopping mall is in Beijing and so on. (Fareed Zakaria, 2008, 3)

Among the BRICS countries, there are the four most powerful emerging economies worldwide that have many common features, such as: robust consumption markets, rich and various natural resources, competitive sectors in agriculture and industry, solid foreign exchange reserves but, at the same time, many different characteristics, for instance, the endowment with factors of production, or the predominance of one or another engine of economic growth. (Oehler-Şincai, 2011, 75). However, the world expert’s assessed that each of the BRICS has certain factors that can define its economy such as: Brazil is considered to be a service economy oriented towards domestic market, Russia’s economy is counting on energy and raw materials exports, India a service economy exports-oriented, China relies on exports of manufacturing and foreign direct investments.

### **2.1. The EU – BRICS Trade Balance up-to-date**

Between 1995 and 2007, the volume of world trade grew by an annual average of over 6%, twice as fast as global production. Part of this growth is due to the spreading of globalization, markets liberalization and an increase in Foreign Direct Investments in the developed countries. The newest Statistical Data provided by Eurostat show that in 2011 the main trading partners of EU were the United States with 13.9% share, China 13.1% and Russia with 9.4%. (Table 1) India ranked 8th (2.4% share) followed by Brazil (2.3% share) and South Africa 13th with a share of 1.3%. (DG Trade, 2011) %. More important is the fact that, in terms

**Table 1. EU TRADE WITH MAIN PARTNERS IN 2011**

<b>EU TRADE WITH MAIN PARTNERS (2011)</b>											
<b>The Major Imports Partners</b>				<b>The Major Exports Partners</b>				<b>The Major Trade Partners</b>			
Rk	Partners	Mio euro	%	Rk	Partners	Mio euro	%	Rk	Partners	Mio euro	%
<b>Extra EU27</b>		<b>1,717,121.9</b>	<b>100.0%</b>	<b>Extra EU27</b>		<b>1,558,415.0</b>	<b>100.0%</b>	<b>Extra EU27</b>		<b>3,275,536.9</b>	<b>100.0%</b>
1	China	293,281.3	17.1%	1	United States	263,638.5	16.9%	1	United States	454,549.5	13.9%
2	Russia	199,092.9	11.6%	2	Switzerland	139,510.3	9.0%	2	China	429,624.3	13.1%
3	United States	190,911.0	11.1%	3	China	136,343.0	8.7%	3	Russia	307,406.3	9.4%
4	Norway	93,766.5	5.5%	4	Russia	108,313.4	7.0%	4	Switzerland	231,347.9	7.1%
5	Switzerland	91,837.6	5.3%	5	Turkey	72,977.2	4.7%	5	Norway	140,428.1	4.3%
6	Japan	69,145.3	4.0%	6	Japan	49,004.9	3.1%	6	Turkey	121,036.8	3.7%
7	Turkey	48,059.7	2.8%	7	Norway	46,661.6	3.0%	7	Japan	118,150.3	3.6%
8	India	39,587.9	2.3%	8	India	40,545.8	2.6%	8	India	80,133.6	2.4%
9	Brazil	38,909.4	2.3%	9	Brazil	35,739.9	2.3%	9	Brazil	74,649.3	2.3%
10	South Korea	36,107.6	2.1%	10	United Arab Emira	33,300.8	2.1%	10	South Korea	68,622.7	2.1%
11	Canada	30,341.3	1.8%	11	South Korea	32,515.1	2.1%	11	Canada	60,208.0	1.8%
12	Saudi Arabia	28,081.6	1.6%	12	Australia	31,140.3	2.0%	12	Saudi Arabia	54,486.4	1.7%
13	Algeria	27,661.5	1.6%	13	Hong Kong	30,735.6	2.0%	13	South Africa	47,126.8	1.4%
14	Nigeria	24,317.5	1.4%	14	Canada	29,866.7	1.9%	14	Singapore	46,286.6	1.4%
15	Taiwan	24,026.4	1.4%	15	Singapore	27,183.8	1.7%	15	Australia	46,070.6	1.4%
16	Kazakhstan	22,874.3	1.3%	16	South Africa	26,585.7	1.7%	16	Algeria	44,911.2	1.4%
17	Malaysia	21,196.2	1.2%	17	Saudi Arabia	26,404.8	1.7%	17	United Arab Emira	42,230.7	1.3%
18	South Africa	20,541.1	1.2%	18	Mexico	23,888.7	1.5%	18	Hong Kong	41,678.2	1.3%
19	Singapore	19,102.7	1.1%	19	Ukraine	21,238.6	1.4%	19	Mexico	40,680.1	1.2%
20	Thailand	17,651.1	1.0%	20	Algeria	17,249.8	1.1%	20	Taiwan	40,232.1	1.2%

Source: EUROSTAT DG TRADE 2012

of Imports the Major Imports partners, there are China (17.1% share), Russia (11.6% share) and the USA (11.1%). By contrast, in 2009, the United States had a share of 15.9%, China 12.9%, and the Russian Federation 7.9%. As for the Partner regions, the BRIC (South Africa joined the BRIC in late 2010 and was not included in the Statistics, but its numbers do not influence the analysis in a large proportion) group is the main trading partner with a share of 27.2%, being followed by the NAFTA agreement, but way behind with a share of 17%.(Table 2)

**Table 2. THE EU TRADE WITH THE MAIN PARTNER REGIONS IN 2011**

<b>EU Imports from ...</b>			<b>EU Exports to ...</b>			<b>Imports + Exports</b>		
Partner regions	Mio euro	%	Partner regions	Mio euro	%	Partner regions	Mio euro	%
ACP	89,307.6	5.2%	ACP	81,684.3	5.2%	ACP	170,992.0	5.2%
Andean Community	15,970.6	0.9%	Andean Community	9,628.3	0.6%	Andean Community	25,598.9	0.8%
ASEAN	95,217.5	5.5%	ASEAN	69,033.8	4.4%	ASEAN	164,251.3	5.0%
<b>BRIC</b>	<b>570,871.4</b>	<b>33.2%</b>	<b>BRIC</b>	<b>320,942.1</b>	<b>20.6%</b>	<b>BRIC</b>	<b>891,813.5</b>	<b>27.2%</b>
CACM	8,365.9	0.5%	CACM	4,350.5	0.3%	CACM	12,716.4	0.4%
Candidate Countries	55,854.1	3.3%	Candidate Countries	87,447.3	5.6%	Candidate Countries	143,301.5	4.4%
CIS	258,954.4	15.1%	CIS	152,512.9	9.8%	CIS	411,467.3	12.6%
EFTA	189,565.0	11.0%	EFTA	189,140.3	12.1%	EFTA	378,705.3	11.6%
Latin American Cour	108,369.8	6.3%	Latin American Cour	96,243.4	6.2%	Latin American Cour	204,613.2	6.2%
MEDA (excl EU and T	72,510.9	4.2%	MEDA (excl EU and T	86,197.8	5.5%	MEDA (excl EU and T	158,708.7	4.8%
Mercosur	52,075.4	3.0%	Mercosur	45,831.9	2.9%	Mercosur	97,907.3	3.0%
NAFTA	238,043.7	13.9%	NAFTA	317,393.8	20.4%	NAFTA	555,437.5	17.0%

Source: EUROSTAT DG TRADE 2012

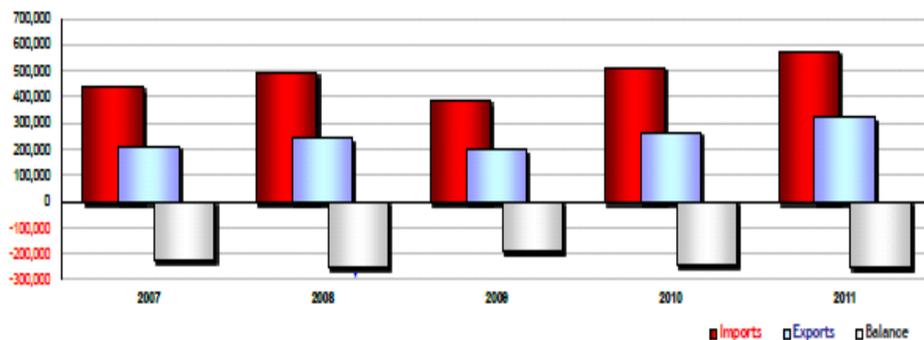
The EU's Trade Balance with BRIC in 2007- 2011 (Table 3) shows no major increase in Imports with an extend of only 2% situated around 30% of the total EU imports, with a peak of 33.8% in 2011Q3, nor in Exports with an extend of 3% in the share of total EU Exports and a peak in the same year 2011Q3 of 21%. The most important assessment can be drawn from this

**Table 3. THE EU'S TRADE BALANCE WITH BRIC 2007-2011**

EU'S TRADE BALANCE WITH BRIC								
European Union, Trade with BRIC								
Period	Imports	Variation (% y-o-y)	Share of total EU Imports (%)	Exports	Variation (% y-o-y)	Share of total EU Exports (%)	Balance	Trade
2007	436,989	13.3	30.2	211,304	18.7	17.0	-225,685	648,293
2008	491,544	12.5	31.1	240,722	13.9	18.3	-250,821	732,266
2009	383,616	-22.0	31.1	196,951	-18.2	17.9	-186,665	580,567
2010	509,703	32.9	33.3	265,653	34.9	19.6	-244,050	775,356
2011	570,871	12.0	33.2	320,942	20.8	20.6	-249,929	891,813
2011Q1	140,157	-	33.0	74,052	-	19.7	-66,105	214,210
2011Q2	141,362	-	33.1	79,075	-	20.8	-62,287	220,436
2011Q3	146,377	-	33.8	81,890	-	21.0	-64,487	228,267
2011Q4	142,976	-	33.1	85,925	-	20.8	-57,051	228,901
2012Q1	143,822	2.6	31.9	83,581	12.9	20.6	-60,241	227,403
2012Q2	141,065	-0.2	32.0	86,733	9.7	20.5	-54,332	227,797
2012Q3	144,819	-1.1	32.2	87,143	6.4	20.5	-57,677	231,962
2012Q4	-	-	-	-	-	-	-	-
Average annual growth (2007-2011)	-	6.9	-	-	11.0	-	-	8.3

Source: EUROSTAT DG TRADE 2012

Trade Balance is presented in Figure 1, where we can see the fact that the trade balance is in favor of the BRIC group, the Imports of goods are higher in some cases, even double than the Exports (Figure 1). The determinant element for the evolution of the trade in goods balance in 2009 was the world financial and economic crisis, which also influenced the EU trade with respect to diminishing the exports, imports, and, accordingly, the trade balances (Oehler-Şincai, 2011, 81).

**Figure 1. THE EU'S TRADE BALANCE WITH BRIC**

Source: EUROSTAT DG TRADE 2012

On the other hand, the BRIC's Trade Balance (Table 4) with the EU for the same period of time 2007-2011 is positive (Figure 2) with an EU share of

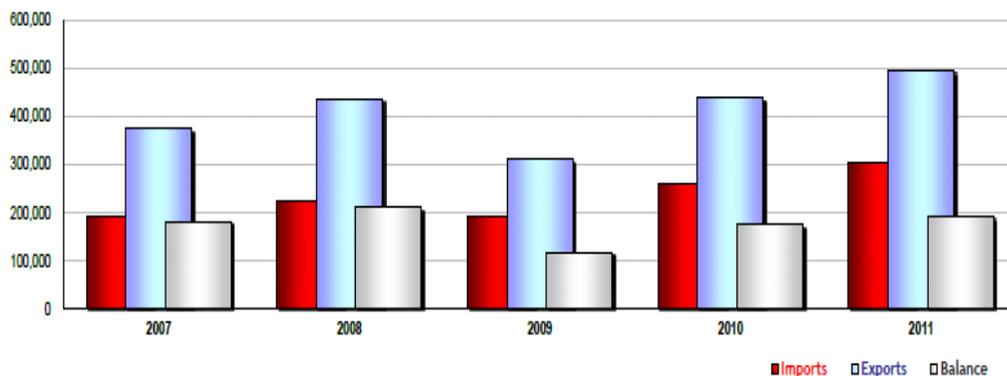
total Imports slowly decreasing from 18.6% in 2007 to 15.3% in 2011 and an EU share of total Exports sliding from 27.8% in 2007 to 23.7% in 2011.

**Table 4. BRIC's TRADE BALANCE 2007-2011**

BRIC'S TRADE BALANCE								
BRIC, Trade with the European Union								
Period	Imports	Variation (% y-o-y)	EU Share of total Imports (%)	Exports	Variation (% y-o-y)	EU Share of total Exports (%)	Balance	Trade
2007	191,793	18.9	18.6	374,456	11.0	27.8	182,664	566,249
2008	226,722	18.2	18.5	437,971	17.0	28.5	211,248	664,693
2009	192,324	-15.2	18.3	311,458	-28.9	24.5	119,134	503,782
2010	262,584	36.5	17.0	438,336	40.7	24.7	175,752	700,919
2011	302,849	15.3	16.1	495,937	13.1	23.7	193,088	798,786
2011Q1	65,912	-	15.5	111,832	-	24.2	45,921	177,744
2011Q2	75,424	-	16.5	121,705	-	23.7	46,281	197,129
2011Q3	78,892	-	16.3	130,218	-	23.7	51,326	209,110
2011Q4	82,622	-	16.1	132,183	-	23.2	49,561	214,804
2012Q1	83,593	26.8	16.7	120,948	8.2	22.8	37,355	204,541
2012Q2	-	-	-	-	-	-	-	-
2012Q3	-	-	-	-	-	-	-	-
2012Q4	-	-	-	-	-	-	-	-
Average annual growth (2007-2011)		12.1			7.3			1.4

Source: EUROSTAT DG TRADE 2012

**Figure 2. THE EU'S TRADE BALANCE WITH BRIC 2007-2011**



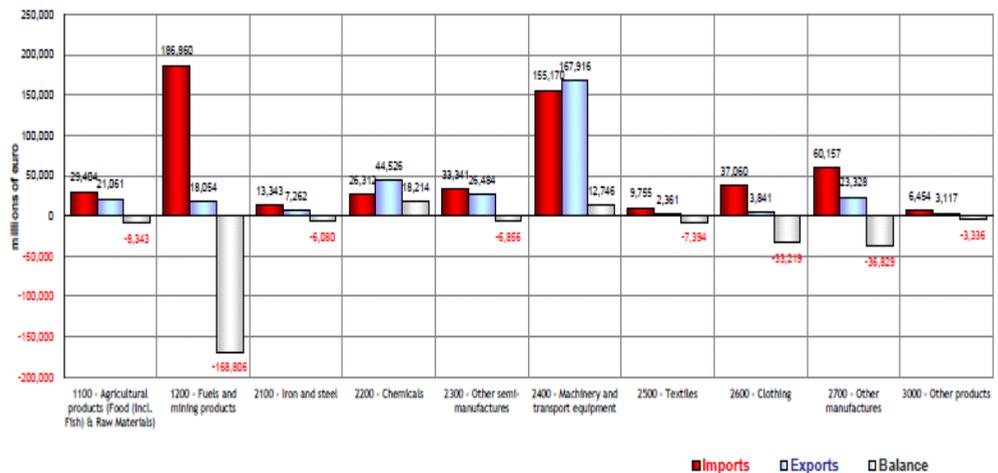
Source: EUROSTAT DG TRADE 2012

As stated previously, the Trade Balance from 2007 – 2011 is in favor for the BRIC countries, the EU being dependent of Imports from this countries. Therefore, this increase of trade is of paramount importance for the European Union. However, the goods imported from the BRICS countries are mainly fuels and mining products, agricultural and raw materials, manufacturing products,

such as textiles or clothing and machinery and transport equipment as presented in Figure 3.

**Figure 3. THE EU TRADE WITH BRIC 2011**

EU Trade with... BRIC



Source: EUROSTAT DG TRADE 2012

The major deficit balance is in the field of fuels and mining products, which reflects the organic relationship that EU has with Russia, its main exporter of energy materials. This could be perceived both as an opportunity and as a threat, depending on the bilateral relation established between the two, known to be extremely sensitive. If the EU manages to maintain and to deepen a good relationship at all levels with Russia by promoting effective multilateralism, its energy dependency will bring new opportunities. On the other hand, if the international relations between the two will get colder this energy dependency will become a serious threat for the EU stability. From this point of view, the EU should better find ways to decrease the imports of energy supplies from Russia by establishing new routes for petroleum and gas pipelines that will bypass the Russian ones or to extend its renewable energy program. Moreover, Laval-Arcas argues that „on energy Brussels should diversify its energy supplies in order to overcome the EU’s dependency on Russia, and greater emphasis should be placed on locally generated renewable sources of energy.”

## 2.2. Trends in FDIs

The BRICS countries have been the predominant recipients of FDI during the last decades. However, the evolution of FDI inflow shows very distinct trajectories for the five countries. Until 1984, Brazil was the major FDI recipient country among the BRICSs, overtaken by China in 1985 and since then China continues to be a major destiny of FDI, especially in the automotive and consumer durables sectors. China became the world major recipient of FDI in the 1990s, matching with the country's efforts to integrate with the world economy. South Africa and India received an almost constant and small part of the world total FDI flows during the last two decades. India has many restrictions as to FDI inflows, where public enterprises dominate in many key sectors. Equally, the low and constant inflows have applied to the Russian Federation since 1990. (Vijayakumar, Sridharan, Rao, 2010, 3)

Global FDI flows have declined in 2012 by 14% from 2011 to USD 1.4 trillion in spite of the 22% increase in the last quarter, but remain comparable to global FDI flows in 2010. In 2012, 44% of global FDI inflows were hosted by only five countries. China attracted the lion's share by USD 253 billion (or 18% of total) followed by the United States (USD 175 billion), Brazil (USD 65 billion), the United Kingdom (USD 63 billion) and France (USD 62 billion). (OECD, 2013) While China received 11% more FDI as compared to 2011, inflows to India, Russia and South Africa's decreased by more than 15% and Brazil maintained the same level of FDI inflows at USD 65 billion.

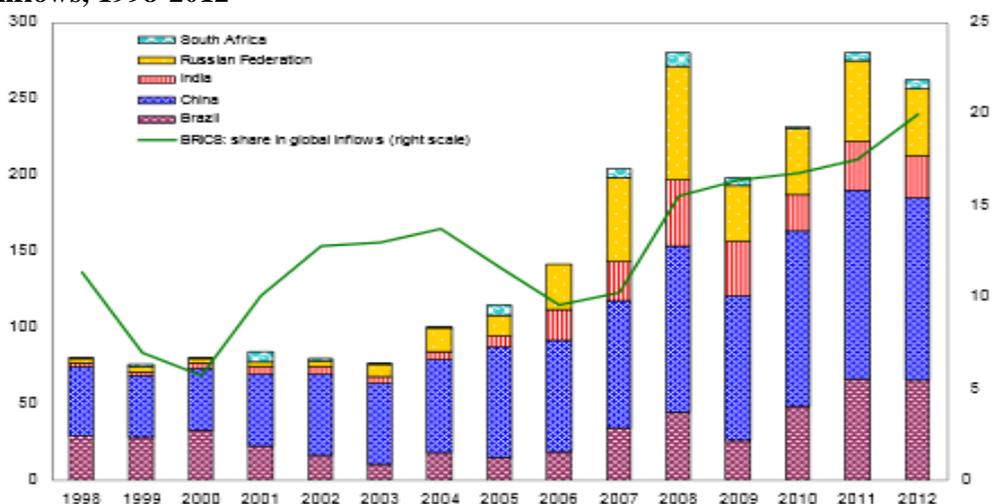
Over the past decade, FDI inflows to BRICS more than tripled to an estimated US\$263 billion in 2012. As a result, their share in world FDI flows kept rising even during the crisis, reaching 20% in 2012, up from 6% in 2000. BRICS countries have also become important investors, their outward FDI has risen from US\$7 billion in 2000 to US\$126 billion in 2012, or 9% of world flows - ten years before that share was only 1%. (UNCTAD, 2013) 42% of BRICS outward FDI stock is in developed countries, with 34% in the EU (Table 6). Some 43% of BRICS outward FDI stock is in respective neighboring countries in Latin America and the Caribbean, East Asia, South Asia and transition economies.

**Table 6. Outward FDI stock from BRICS, by destination region, 2011**

Partner region/economy	Value	Share
<b>World</b>	<b>1 130 238</b>	<b>100.0</b>
<b>Developed countries</b>	<b>470 625</b>	<b>41.6</b>
European Union	385 746	34.1
United States	31 729	2.8
Japan	1 769	0.2
<b>Developing economies</b>	<b>557 055</b>	<b>49.3</b>
Africa	49 185	4.3
Latin America and the Caribbean	175 410	15.5
Asia	331 877	29.3
<b>Transition economies</b>	<b>31 891</b>	<b>2.8</b>
<b>Memorandum</b>		
<b>BRICS</b>	<b>28 599</b>	<b>2.5</b>

Source: UNCTAD, FDI database and data from the IMF, CDIS

**FDI inflows** to BRICS are characterized by some key features: The big jump in FDI inflows to BRICS took place from 2003 to 2008, growing from \$77 billion to \$281 billion, with China and the Russian Federation accounting for the lion's share of growth. FDI flows to BRICS remained relatively resilient to the crisis compared to other countries, with a decline in inflows by 30% in 2009 (compared to 40% for developed countries), and a much more rapid recovery to peak levels.

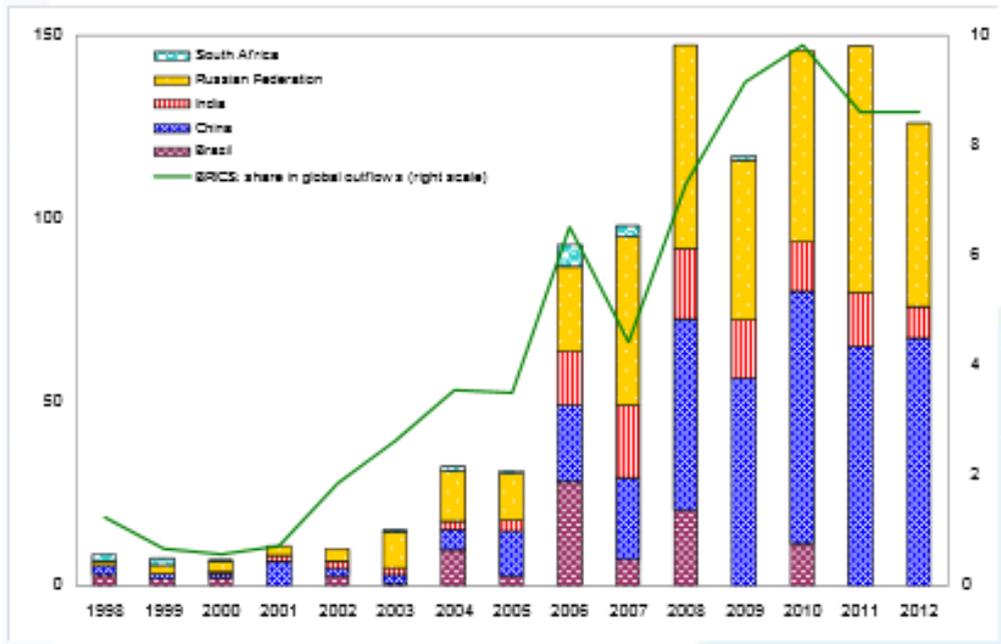
**Figure 4. BRICS countries: FDI inflows and their share in global FDI inflows, 1998-2012**

Source: UNCTAD, FDI/TNC database

As a consequence, the share of FDI flows to BRICS in the world total kept rising during the crisis and reached a record of 20% in 2012, almost three times more than the 6% share registered in 2000. Almost half (46%) of the FDI flows to BRICS go to China, followed by Brazil (25%), the Russian Federation (17%) and India (10%). With the rapid rise in inflows, the FDI stock in BRICS countries are increasing as well, standing at 11% of global FDI stock, and catching up with developed economies. (Figure 4)

FDI outflows show the following key features: The rise in the FDI outflows started slightly later than that of inflows, jumping from US\$31 billion in 2005 to US\$93 billion in 2006. BRICS investors also remained resilient to the crisis, with outflows dropping by only 26% in 2009, compared to 41% for the world as a whole. As a result, the role of BRICS as investors increased significantly, now accounting for 9% of world outflows in 2012 - ten years before that share was only 1%. China and the Russian Federation account for the lion's share of flows from the grouping, with 54% and 40% respectively. (Figure 5)

**Figure 5. BRICS countries: FDI outflows and their share in global FDI outflows, 1998-20**



Source: UNCTAD, FDI/TNC database

Among the BRICS China and Brazil are the main receptors of FDIs and China and Russia the main providers of FDIs at the global scale. However with

all the extraordinary progress that these countries made in terms of FDI flows, the EU is a more important source of FDIs for the BRICSs than vice versa (Havlik, et. al., 2009, 58). The EU is by far the most important investor in Russia and Brazil but less in India and China.

### **2.3. The EU - Russia bilateral cooperation**

The EU has an organic relationship with the Russian Federation in both trade and FDIs. The nature of the bilateral relation between the two is complicated and does not fit with the purpose of this paper. However, there are some key features that must be underlined.

On the occasion of the 30th EU-Russia summit which took place on December 20<sup>th</sup> in Brussels, Eurostat issues the latest data on trade between Russia and the EU. Russia remains the EU's third most important trading partner (after the US and China), with 108 billion EUR in exports to Russia (7 % of all EU exports, 4th place after US, China, Switzerland) and 199 billion EUR in imports in 2011 (11.8 % of all EU imports, 2nd place after China). The EU is thus by far the largest market for Russian goods, accounting for roughly half of Russian exports in 2011. The EU is also the main supplier for Russia, with a 43 % market share, followed by China and Ukraine. In 2011, both imports and exports rose by around 25 % and have continued to increase in the first nine months of 2012. More specifically, Russia is the EU's most important single supplier of energy products, accounting for 29 % of the EU consumption of oil and gas. In turn, Russia's economy remains highly dependent on the export of energy raw materials, with the EU as its most important destination. In 2011, 79 % of Russia's exports to the EU consisted of crude oil, oil products and natural gas. In 2010, EU stocks of foreign investment in Russia were estimated at 120 billion EUR. This is more than EU foreign investment stocks in China and India combined.

Among the BRICS, Russia is the closest country to the EU, being an important trade and investments partner. The EU firms show a very high presence in Russia and Russian firms are as well present in European countries. We can assess the fact that Russia is a major asset for the BRICS group for its privileged relationship with the EU. Russia has been a reliable supplier of energy into the EU for many years, despite periods of internal difficulties. Generally, the EU is in a weak position since it needs energy security. Russia has been making an autocratic use of its energy policy. The EU continues to have considerable dependence on the Russian energy supply: the share of the EU imports from Russia is 30% in the case of oil and 44% in the case of natural gas. So, the EU should diversify its energy supply sources by dealing with alternative markets such as the Middle East, Norway, Nigeria or Algeria. (Leal-Arcas, 2008, 26)

The EU's objective towards Russia is to create a common economic space based on a free-trade area with Russia. The EU had a major role in Russia's accession to WTO in August 2012 an important step in the pathway for further trade liberalization between the two. Out of the BRICS countries Russia offers both most opportunities and challenges for the European Union, due to its strategic importance for Brussels. A good relationship with Moscow means not only energy security, but also political stability, enhanced trade and mutual benefits.

## CONCLUSIONS

The EU has strategic partnerships with all BRICS countries and although it does not recognize the BRICS as a group, it negotiates through bilateral discussions with each. The BRICS countries strive for recognition as 'poles' in a multi-polar world and are seeking stronger ties both with the United States and the EU. The EU plays a more important role in BRICS trade than vice versa; among them Russia is the most important EU export partner and China the largest import partner. In the past 5 years, the EU had a major deficit in the trade balance with BRICS mainly in the field of fuels and mining products which reflects the special relationship with Russia. The BRICS countries have been the predominant recipients of the FDI during the last decades and the EU should take it as an opportunity and promote stronger ties with the BRICS.

The EU should start talking in a collective manner, intensify trade and promote effective multilateralism in order to enhance strategic partnerships. On the other hand, the economic growth of BRICS defied the economic crisis in which the European Union has been sinking since 2007 and other major players shifted their attention from the EU towards the emergent markets - the United States of America. From this perspective, the BRICS are threatening the EU with major loses in the same way it offers opportunities - trade and FDI's - vital for any economy. Whether the EU can or cannot understand - the BRICS are the 'rock stars' of today's international economic arena - and EU should cultivate its cooperation with them.

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# **EAST AND SOUTH DIMENSIONS OF EUROPEAN NEIGHBORHOOD POLICY: ACHIVEMENTS, CURRENT ISSUES AND PROSPECTS**

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**Abstract:** *This work is dedicated to the evaluation of results and perspectives of Ukraine's participation in European initiative - the Eastern Partnership comparing with the results and perspectives of other (South) European initiative - the Union for the Mediterranean in the framework of European Neighborhood Policy. Issues related to the Association Agreement between Ukraine and the European Union are also considered.*

**Keywords:** Ukraine, Association Agreement, the European Neighborhood Policy, the Eastern Partnership, the Union for the Mediterranean.

## **INTRODUCTION**

The European Neighborhood Policy, which is chiefly a bilateral policy between the EU and each partner country, is further enriched with regional and multilateral co-operation initiatives: the Black Sea Synergy (launched in Kiev in February 2008), the Union for the Mediterranean (launched in Paris in July 2008) and the Eastern Partnership (launched in Prague in May 2009). From the very beginning some Arab countries had suspicious attitude to membership in the Union for the Mediterranean. On the contrary, almost all Eastern European states welcomed the prospects of membership in the Eastern Partnership. However, over time, situation has changed. Arab uprisings have had a dramatic effect, forcing European countries to increase financial assistance for "southern neighbors". At the same time, the Eastern European countries increased suspicion on redistribution of financial aid from the eastern to the southern direction. It is hoped that the European Union properly appreciate the efforts of the Eastern European countries in reforming legal system. And in the case of Ukraine, these reforms will serve as the basis for the entry into force of the Association Agreement.

## **1. GENERAL SURVEY**

It is important that The European Endowment for Democracy, which was set up in 2012 will play a prominent role in supporting the actors in South Mediterranean and East European countries that face obstacles in accessing

European Union funding. The negotiations on the establishment of a deep and comprehensive free trade area between the European Union and the countries - partners of the European Neighborhood Policy is the cornerstone of convergence and build confidence in the political and economic spheres.

Currently, significant progress on the establishment of such zones was obtained in the course of negotiations with the European side, Moldova, Georgia, Armenia. In the near future a positive result can be obtained in the course of negotiations with Ukraine and Azerbaijan.

It should be noted that the whole range of financial instruments is at disposal of European Neighborhood Policy. SPRING and EaPIC funds have been allocated to those who made more efforts in democratic reforms and respect for human rights. The second phase of the Civil Society Facility was adopted with a new budget of EUR 45.3 million for 2012–13.

In March 2013 The European Commission adopted new set of reports on the European Neighbourhood Policy. It was noted that the transition to democracy and socio-economic reforms will need even more time to yield results. The lack of judicial independence remains a strong concern in many countries and so does corruption. European Commissioner for Enlargement and European Neighborhood Policy Mr.Štefan Füle also stressed that Eastern Partnership Summit in Vilnius this will be a milestone in bringing Eastern European partners closer to political association and economic integration (Füle, 2013).

The EU continued to provide financial support for partner countries' reform efforts by making available additional financial resources worth EUR 1 billion from the EU budget in the period 2011-13. Of this, EUR 670 million is channeled through two umbrella programmes: EUR 540 million for SPRING in the Southern Mediterranean and EUR 130 million for EaPIC in the Eastern Neighborhood. Both programmes focus on promoting democratic transformation and institution-building and supporting sustainable and inclusive growth. Funds from these programmes have been allocated on the basis of clear evidence of implementation of democratic reforms. The European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD) have also extended their lending capacities in partner countries (European Commission, 2013). However, the amount of 540 million and 130 million euros are rather symbolic. The amount allocated to the members of Eastern Partnership is significantly less than amount allocated to countries of the Union for the Mediterranean and unlikely help in solving the "burning issues". No less surprising is the annual programming of financial assistance to partners, according to the principle of "more for more".

The EU and partners continued work to improve the mobility of people. 2012 saw significant progress towards the goal of visa-free travel within the Eastern Partnership (EaP). A visa dialogue was opened with Georgia, while

Armenia granted visa-free entry to EU citizens as of January 2013. Following the establishment of Mobility Partnerships with Moldova, Georgia and Armenia, negotiations for an EU-Azerbaijan Mobility Partnership were launched. Work was also undertaken to develop closer ties with the Southern partners on mobility and migration. Negotiations for Mobility Partnerships with Tunisia and Morocco were launched. A dialogue was also opened with Jordan in December 2012. Moldova and Ukraine made substantial progress in the context of the Visa Liberalization Action Plan (VLAP).

As a result of a better cooperation in specific sector areas, the ENP is more and more influencing people's life in a positive and concrete way. Projects supported by the EU and related to transport (i.e. road safety, public transport improvement), environment (i.e. water management, impact assessments), education (i.e. participation of students and researchers in European programmes) or energy (i.e. development of renewable energies), among many other, are improving daily living conditions in partner countries.

## **2. WHAT IS FOR MEDITERRANEAN?**

The key objective of the trade partnership is the creation of a deep Euro-Mediterranean Free Trade Area, which aims at removing barriers to trade and investment between both the EU and Southern Mediterranean countries and between the Southern Mediterranean countries themselves. Euro-Mediterranean Association Agreements are in force with most of the partners (with the exception of Syria and Libya).

The scope of these agreements is essentially limited to trade in goods and a number of bilateral negotiations are on-going or being prepared in order to deepen the Association Agreements. These ongoing or future negotiations are related to further liberalization of trade in agriculture, liberalization of trade in services, accreditation and acceptance of industrial products and regulatory convergence. Relations between the European Community and Libya have so far taken place outside a bilateral legal framework governing bilateral relations. The negotiations for a Framework Agreement between the EU and Libya started in November 2008. The aim was to include a Free Trade Agreement covering trade in goods, services and investment. This would provide new export opportunities and higher legal predictability for EU exporters, mainly in areas such as services, public procurement and gas and oil markets. However, following the events in early 2011 in Libya, negotiations were suspended in February 2011. Libya is the only Mediterranean country - with the exception of Syria - that has not yet concluded a Free Trade Agreement with the EU. Libya is not a WTO member. Negotiations for Libya's accession to the WTO started in 2004. The negotiation for the Framework

Agreement on trade between the EU and Libya would have paved the way for Libyan WTO accession.

An EU-Algeria Association Agreement entered into force in September 2005. This agreement sets out a framework for the EU-Algeria relationship in all areas including trade. Algeria is in the process of accession to the WTO, with strong support from the European Union.

The EU-Egypt Association Agreement, in force since 2004, establishes a free-trade area with the elimination of tariffs on industrial products and significant concessions on agricultural products. In addition, an ambitious agreement on agricultural, processed agricultural and fisheries products entered into force on 1 June 2010.

Negotiations for a Deep and Comprehensive Free Trade Area (DCFTA) between the EU and Morocco were launched on 1st March 2013. This DCFTA will extend significantly beyond the scope of the existing Association Agreement to include trade in services, government procurement, competition, intellectual property rights, investment protection and the gradual integration of the Moroccan economy into the EU single market, for example in areas like industrial standards and technical regulations or sanitary and phytosanitary measures. The main objective of the DCFTA is to bring Moroccan legislation closer to EU legislation in trade-related areas. The current framework for EU-Morocco trade relations is the Association Agreement between the EU and Morocco which entered into force on 1 March 2000 and provided for a Free Trade Area.

Bilateral EU-Syria relations are governed by the Cooperation Agreement signed in 1977. Syria and the EU have negotiated an Association Agreement. However, the signature of the Association Agreement between the EU and Syria has been put on hold by the EU due to the internal situation in Syria. The instability in Syria has also led to restrictive measures by the EU and has a significant impact on bilateral trade. Syria applied for WTO membership in October 2001. On 4 May 2010 the WTO General Council established a working party to examine the Syrian request for WTO membership.

The EU's Association Agreement with Jordan entered into force on 1 May 2002. The Association Agreement progressively establishes a Free Trade Area between the EU and Jordan over 12 years. In addition, negotiations on liberalization of agricultural products were conducted in 2005. The protocol on Dispute Settlement Mechanisms for trade between the EU and Jordan entered into force on 1 July 2011. 2012 sees the start of a new leadership phase for the UfM, with the changing of the guard for key roles in the organization: from March Moroccan Fathallah Sijilmassi took over from Moroccan deputy foreign minister, Youssef Amrani, and there will be the new co-presidencies of the EU and Jordan instead of France and Egypt. Also this year, another change has taken place in the Parliamentary Assembly of the Union for the Mediterranean, which is now being guided by the president of the European parliament, Martin Schulz. "With the EU-Jordan co-presidency" the Secretariat

pointed out in Barcelona, "the UfM enters a new phase of evolution, which will enable it to add the necessary added value to strengthened regional cooperation in the Mediterranean". The high representatives meeting of the 43 countries was also attended by the EIB Vice President, Philippe De Fontaine Vive, who confirmed the intention to give 500 million euros to support projects for the UfM (EU Neighbourhood Infocenter, 2012).

As a result of the EU-Lebanon Association Agreement, Lebanese industrial as well as most agricultural products benefit from free access to the EU market. Lebanon is in the process of accession to the WTO. Negotiations started in 1999. In June 2012 at a meeting of the high representatives of the Union for Mediterranean in Barcelona, three new projects were announced: capacity for success: competences for women in the workplace; the creation of a Euro-Mediterranean University in Fes, Morocco; overcoming the challenges of governance for mobilizing the water sector of the Mediterranean.

In the South Mediterranean European Commission is offering integration in the extended European economic zone. In this regard Mr. Štefan Füle remarks: "This will be of course a gradual prospect, but at the end of it, our partners should enjoy the benefits of integration in the vast EU single market. Of course, this requires accepting the values and principles on which our single market is based. In this context, we hope to see democratic transitions continue in the South, and will continue supporting them". And this is despite the fact that "...concerns remain about freedoms of assembly, association and expression, including media freedom, in many partners, notably Egypt and Algeria. Constitutional reform is slow" ((EU Neighbourhood Infocenter, 2013). So, the European Union intends to implement ambitious project in the Southern Mediterranean, but for the countries of the Eastern Partnership this scenario is not applicable. Such disparity creates a real opportunity for some Eastern Europe countries to drift in the direction of the Customs Union.

### **3. EASTERN PARTNERSHIP**

Eastern Partnership - is a relatively new program, and now the focus is on implementing it in the jointly agreed objectives and initiatives. One of the main priorities is to institution building. European Partnership needs to establish effective institutions to implement far-reaching reforms and to commit to the association and integration with the EU. That's why the EP leadership made significant effort to develop their capabilities in a comprehensive institution-building programs.

Secondly, the Eastern Partnership increase formal support of citizens by providing additional support at the regional level, aimed at reducing socio-economic disparities between regions within a country through the pilot regional development programs.

Third, to strengthen incentives for democratic reform and respect for human rights, the EP leadership plan to use the so-called principle of "more for more". This means that those who are more advanced in the implementation of reforms, get more support, including financial. To this end, the EP officials want to instantly control the funds provided under EAPIC (Program Integration and Cooperation of the Eastern Partnership).

Finally, the EP leadership will focus on financial planning for the next financial period 2014-2020. They use all the experience gained since the launch of the Eastern Partnership, to ensure the existence of a stable framework for cooperation that will make long-term changes in the partner countries. These changes will affect the lives of ordinary people and create a climate in which you will hear the voice of civil society.

Eastern Partnership can bring about positive changes in the real, because of implementation of the most of the EU legislation. This will improve the quality of life (as example, the introduction of standards for food), increase trade opportunities, improve business - environment, facilitate movement within the EU, etc. What is important, the Eastern Partnership is also seeking to strengthen democracy, fundamental freedoms and human rights. The populations of Eastern Partnership countries, regardless of their social status, deserve the right to freely develop their skills and abilities in a free society.

In other words, the Eastern Partnership is a political initiative, which is aimed at rapprochement with the EU governments and ordinary people, to strengthen cooperation, as with every country, and with entire regions, to stimulate the development of their economies and to create jobs, accelerate growth and provide people more opportunities, so that they can create a decent life in a democratic society.

For the partnership are significant financial resources. Since the launch of the initiative in May 2009, for projects and programs that have direct and indirect value to people, it has been allocated € 2 billion - an amount that has helped purchase trolleys in Moldova or provide scholarships for Ukrainian students to study in European universities (Fontana, 2012).

Civil society is a key element of the Eastern Partnership, an example of which is the establishment of the Civil Society Forum (CSF). The idea of the CSF is to provide a voice for civil society and support them in the development of dialogue with the countries of the Eastern Partnership, to communicate with each other not just governments and institutions, but also its civil society. This occurs through the Forum and its national platforms in each country the EP, which provides advice on strategies and initiatives. EU countries evaluate their own opinions in the preparation of new programs. The role of civil society is crucial in supporting democratic values and the monitoring results of the governments' reforms. These reforms will be more effective if their implementation will be monitored by civil society. With this in mind, the EU has established a tool of civil society partnerships - a new financial

instrument that provides additional support to civil society organizations, in particular to strengthen their ability to hold the government accountable. Since the establishment of the Eastern Partnership Civil Society Support the support more than doubled (now it is 57.5 million euros for the period 2011-2013 for all six countries).

#### **4. UKRAINE AND EASTERN PARTNERSHIP**

Ukraine has slowed down the pace towards liberalization of the visa regime with the EU comparing with other Eastern Partnership countries (Moldova, Georgia, Belarus, Armenia and Azerbaijan). The first place came to Moldova, which has launched its Action Plan on visa liberalization with the EU together with the Ukraine in 2010, and in the summer of 2012 was able to complete its first phase. Georgia received a similar action plan on February 25, 2013. Armenia only started visa dialogue with the EU. Azerbaijan is on the verge of signing such a document. Only Belarus remains the only country in the Eastern Partnership which has almost no progress in the liberalization of the visa regime with the EU. Thus, nowadays Kiev is in second place in Plan's implementation among other Eastern Partnership countries. Even Russia has its own "parallel process" of convergence with the EU.

The expert assistance in the drafting of laws is needed to avoid the adoption of instruments that do not fully comply with European standards. The representative of the Ukrainian Institute of Public Policy Ivan Presnyakov reported that law on anti-corruption policy, which passed without an expert opinion in the 2012, was flawed and now needs a number of additions and changes. He also stressed that one of the key requirements of international organizations is the creation of a single independent anti-corruption agency.

As leader of the Ukrainian public organization "Europe without barriers" Iryna Sushko said, the lag Ukraine in the implementation of the first phase of the Action Plan on visa facilitation is caused by internal factors. She stressed that among urgent measures is approval "the Strategy of protection and integration Roma's minority into Ukrainian society" by Ukrainian President, preparation of action plan to prevent and combat discrimination by Ukrainian government as well as bringing of Ukrainian and international experts to the work over laws in the Verkhovna Rada. The expert of the Orlyk Institute of Democracy Natalia Belitser considers that the law on anti-discrimination policy in Ukraine adopted in October 2012 requires the expanding of the list of grounds for discrimination, clarification of the concept on discrimination, and determination of agency that would be responsible for anti-discrimination policy (Russian Service DW, 2013).

Ukrainian side is aware of the complexity of approval process of the European Council conclusions on Ukraine (of December 10, 2012) by EU member countries. Under the Lisbon Treaty rules, the European Council does not require formal consent from the European Parliament for deciding on the Association Agreement and the

provisional application of the Free Trade Area. At the same time the Ukrainian side understands that according to the political obligations the European Council shall not carry out this step without the advice and assistance of the European Parliament.

Negotiations on a new basic agreement between Ukraine and the EU to replace the Agreement on Partnership and Cooperation Agreement were launched in March 2007. During the course of the fifteenth EU-Ukraine Summit (December 19, 2011, Kyiv) Ukraine and EU leaders officially announced the completion of negotiations on the Association Agreement. Negotiating delegations initialed Agreement in Brussels on March 30, 2012.

The Association Agreement is designed to provide a new, profound format of relations between Ukraine and the EU. It will be a unique two-sided document, which will come out far beyond similar agreements between EU and the countries of Central and Eastern Europe. The agreement not only lay the qualitatively new legal framework for future relations between the EU and Ukraine, but also serve as a strategic guide for implementation of systemic social and economic reforms in Ukraine, for a large-scale adaptation of Ukraine to EU standards and rules (MFA of Ukraine, 2012).

Ukraine proceeds from the need for balanced approach to the content of the agreement, taking into account the current state and prospects of development of the economic situation in the country and, therefore, the importance of creating conditions for deepening economic cooperation in the interests of both sides. But only in cooperation with the European leaders it is possible for Ukrainian side to found compromises and solutions to problematic aspects that are directly related to the process of integration into European Union. Ukraine hopes that the Association Agreement will be signed at the Eastern Partnership Summit in November 2013 and ratified in optimal time.

## CONCLUSIONS

Now, to confirm European integration aspirations Ukraine need to step up legislative reforms and exercise tight control of the human rights. For its part, the European side also needs to take into account the fact that the transformation of society can not be completed at lightning speed and to consider it with the corresponding point of view. Nowadays the Ukrainian leadership conducts a balanced domestic policy aimed at providing of deep economic reforms, priority of law, reforming of system of management, separation business from power, enhancing business and investment climate. Currently the new Criminal Procedure Code in Ukraine is approved and electoral legislation is modernized. Despite this, some European intellectuals absolutely ignore these facts. Nevertheless, the implementation of reforms would be achievable if the European Union and Ukraine will work together. Up to the Eastern Partnership summit in Vilnius the European

side plans to organize a number of activities with the member countries of the Eastern Partnership. Given this, the Ukrainian side is interested in EU's attracting the partner countries to the preparation of the summit. In this context it is important to provide direct communication to address the complex issues of cooperation in the framework of the Eastern Partnership.

Ukraine still interested for negotiating the issue on European perspective of the partner countries at the Eastern Partnership summit in Vilnius as a means of encouraging the development of cooperation in the framework of the initiative in the future. Ukrainian side hopes that establishing a free trade zone can occur in early 2014. By this time the Ukrainian government must create a favorable business climate through reforms in the areas of economics, public administration and justice system.

With signing of the Association Agreement the relations between Ukraine and the EU will be transferred to a new level - from partnership and cooperation to political association and economic integration. An important element of Agreement is the creation of a deep and comprehensive free trade area. Ukraine considers the association agreement as an important step for approaching in the future to the next stage - preparation for EU membership.

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# EUROPEAN COOPERATIVE SECURITY SYSTEM AND COMPLEX INTERDEPENDENCE

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**Abstract:** *The research paper analyzes the creation of complex combination of several international organizations in Europe, which are also sustained by the European Union (EU). The research argues that the current political and economic situation in the EU zone appears as a complex interdependence, which has also become attractive for the EU Neighborhood, especially for the Eastern Partnership. Furthermore, the European Union security experts talk more and more in light of the Kantian and Wilsonian ideas – cooperative security. In fact, the imaginary European complex interdependence has been also accompanied by cooperative security and defense commitments. Meanwhile, this research argues that the emerging European cooperative security and defense system has been evolving smoothly also due to strong collective defense guarantees during the last 60 years – the NATO factor. The European states, being in inevitable-long cooperation in the EU and NATO, have achieved a sense of common political-security identity and community, which is necessary for the long-term international cooperation and stability. Furthermore, this common political and security identity in Europe was achieved by democratic states with free market economies, which also attract the EU Eastern neighboring states. Meanwhile, at this moment to retain a global role, the EU community should not ignore this factor along with a timely-proved Euro-Atlantic security link.*

**Keywords:** European Union, European Security Defense Policy, European Neighborhood, European cooperative security system, complex interdependence, NATO, collective defense.

## INTRODUCTION

*If a powerful and enlightened people should form a republic, this would serve as a center of federal union for other states in accordance with the idea of the law of nations. Gradually, through different unions of this kind, the federation would extend further and further.*

Immanuel Kant (Kant, 1795, republished 1996)

*There will be no peace in Europe if states re-establish themselves on the basis of national sovereignty, with all that this implies by way of prestige policies and economics protectionism. If countries once more protect themselves against each other, it will once more be necessary to build up vast armies....*

Jean Monnet, one of the EC architects (Cohen, 2001, p.47)

In November 1932, the British professor Ramsay Muir claimed about emerged interdependent world by four factors: conquest of distance, creation of the world single political system, cultural assimilation and economies' interdependence (Muir, 1971). Similarly to other political scientists, he argued that interdependent world had been becoming *global*. However, the international institutions, which should have sustained a stability of such global world, were quite weak at that time. Meanwhile, the traditionally-sovereign states were not willing at all to submit a part of their autonomy to the international organizations for the sake of a stable international community. Therefore, the international *Status Quo* security situation remained fragile, gradually leading again to a major war, extension of self-determinations, tariff restrictions, monetary collapses, and social revolutions. Consequently, to achieve fully-interdependent world, Ramsay Muir urgently suggested the limitation of state sovereignty, abolition of war and *economies' cooperation*. Mostly, he stressed that interdependent economies and limited states' sovereignties are keys of an interdependent world. However, neither he nor other political experts precisely prescribed the change path toward such interdependently-stable world system. The Second World War became another proof of the interdependent economies' inability to survive without a strong common security defense arrangement and a common identity.

Nowadays, the situation in the European Union area repeatedly appears to become interdependent, but with considerable differences from the pre-World War II circumstances. The current European complex interdependence has been being supported by an emerged cooperative security and defense system sustained by *the democratic states with free market economies*. Therefore, the most important factors of this European interdependence have been the European Union, which has created the common political identity and NATO, which has timely developed a sense of common security identity and community. Evidently, these factors have become quite attractive for the states of the EU Neighborhood, especially of the Eastern Partnership.

## 1. HISTORICAL OVERVIEW OF THE PREVIOUSLY FAILED EUROPEAN COLLECTIVE SECURITY SYSTEMS

The EU *Common Foreign and Security Policy* (CFSP) with the European Security and Defense Policy (ESDP) and common collective defense system of NATO are not new ideas in Europe. In fact, cooperative security arrangements have repeatedly evolved during the last two hundred years. Such efforts could be demonstrated from the Concert of Europe and the League of Nations to the OSCE (Organization for Security and Cooperation in Europe). Timely, many of them have failed or have not met the initial expectations to sustain international security for a variety of reasons. However, the most important fault reason was the international organizations' inability to develop a common political and security identity, in other words, a community of states.

In fact, the Vienna Conference and Vienna Treaty created the Concert of Europe (1815) for Nobile reason at that time. First, established after the shadow of the Napoleonic wars, the Concert of Europe was the mechanism whereby the *Balance of Power* system was arbitrated. One of the Vienna Treaty goals was to defend the *Status Quo* of a state sovereignty. Therefore, the Concert had become the tool for state interventions if one of the governments would have asked for. However, the United Kingdom found such enthusiasm for *dynastic interventions* unacceptable. For that reason, after the continental powers' intervention in Spain in 1823, the British withdrew from the Organization, which would contribute to the lack of legitimacy and to the eventual dissolution (Cohen, 2001, p. 42).

After World War I, the League of Nations (1919) went further by being organized in an almost collective security organization, where member states should have defended the other member states if required. However, strongly advocated by only two major powers - France and the United Kingdom, the League of Nations had not succeeded in establishing a global or at least regional security community with a common identity. Furthermore, the *unjust* and humiliated Versailles Treaty for Germany along with the post-World War I small gains for Italy and big losses for Russia brought the European states to another devastating world war.

In fact, the United Nations (UN) Organization's founders did not repeat previous mistakes while attempting to create an international collective security organization in 1945. Nowadays, the UN as the international security organization has more effectiveness in international crisis management than the previous international organizations. However, there is a vital informal question: if the UN identity has become important and how such identity influences the UN Security Council that guides the Organization. The UN major difficulty is the decision making with a veto procedure at the Security Council, which has demonstrated the inability to find timely-relevant solutions to several crises after World War II.

The Organization for Security and Cooperation in Europe (OSCE), the new idea in European cooperation, reflecting Kantian and Wilsonian approaches, appears

to have a potential relevance in the international security domain. That assumption is based on the existing possibility to promote Euro-Atlantic security via this international platform, but not a stable security at this moment. The lack of military guarantees, non-existing strong common values, lack of big actors' consensus, and inability of the OSCE members to adopt a culture of peaceful negotiation have demonstrated a pre-mature declaration about the OSCE as an international *cooperative* security organization.

Thus, the previously-mentioned collective security organizations did not accomplish their initial intent by failing to find a precisely-effective security mechanism and to establish a collective security community, which would promote and defend common identity and values. Consequently, in the absence of clear security guarantees, when "military allies [should] seek interdependence to provide security for all", the economic and social cooperation becomes fragile (Keohane, 1977, p. 10).

In fact, complex interdependence is characterized by multiple countries' connecting channels, multiple-issues interstate agendas and inability of a national government to use a military force towards another national government (Keohane, 1977, p. 25). The last component seems less important only if the first two characteristics are achieved in a community of states. Meanwhile, if a community of states' identity is strengthened by strong collective defense arrangements, then political, economic, and social interdependence, all become much stronger. Consequently, being supported by the NATO factor and amplified by the external threat (cold war), initially created West-European complex interdependence has evolved in a broader European cooperative security defense system. Nowadays, the EU ESDP (European Security and Defense Policy) will have a role to make the European security and defense system more interdependent and more cooperative. Meanwhile, the last sixty-year experience has confirmed the importance of the Euro-Atlantic link, which is also essential to be considered by the European states in the evolved complex interdependent arrangement.

## **2. PRESENTLY DEVELOPED INTERDEPENDENT EUROPEAN COOPERATIVE SECURITY SYSTEM**

### *2.1. Reasons for Euro-Atlantic Community Survival after the Cold War*

The *End of History* – the cold war end – expressed by the political scientist Francis Fukuyama should have brought full global integration, stability and peace to the international environment. In this respect, according to the theory of alliance, the Euro-Atlantic security arrangements (NATO) should have disintegrated without facing precise enemy or threat (Walt, 1987). Such prediction was accurately related to the Warsaw Pact dissolution; however, the Western European Union and NATO fates surprisingly became distinct. The difference between many previous military

alliances (including the Warsaw Pact) and NATO/WEU alliance lays in dissimilar approach towards the development of a common community and a common identity. Analyzing the Napoleonic wars and the two world wars, it became obvious that the previous European military alliances and the Warsaw Pact did not achieve common objective – a common security identity, which is necessary for long inter-state commitments. In fact, the past-European alliances were mainly based on the traditional *Balance of Power* multi-polar approach in international affairs, which proved to be one of the most unstable (Gilpin, 1981). The weakest point of such an arrangement was the question of *gains* and *losses*, which became very sensitive for many states at that time. Contrary, the Warsaw Pact accompanied by the Economic Cooperation Commonwealth, appeared to develop such an identity based on the Marxist ideology; however, time proved that *community* was forced by the Soviet asymmetrically-powerful domination. Notably, history has revealed that all *communities* established by coercive force and personal objectives would collapse eventually. In this context, the Euro-Atlantic community with NATO factor was formed on shared principles, cultural heritage, and common consent (Thomas, 1997, p. 33). Thus, NATO as a military alliance along with the developing European Union as a political-economic community has achieved the objective of creating a common identity.

The distinct fact about the identity in NATO was the US supportive, but not asymmetrically-dominative role. In fact, the European states had initially negotiated the establishment of common security and defense among themselves, but realized that the timely-ignored North American factor had played an important role in the European history: "...any defense arrangements, which did not include the United States, would be without practical value...[after the Cold War]" (Kay, 1998, p. 17). Consequently, the U.S. had not originally been a centrifugal moment of the Alliance: "Marshall advised Bevin that the Europeans should 'come together' for their own protection, see what they could do, and then turn to the United States, and see what we can do...." (Kay, 1998, p. 16). Thus, the idea of a collective defense treaty was more than a traditional balance of power; the idea presumed the old European scheme of unification, but under various political, military, economic and social components. For the first time, Europe with traditional opponents Germany, France and the U.K. faced the possibility to peacefully unite in a complex cooperation. However, at that time, the only economic the West-European interdependent unification proved to be fragile: "...in August 1954, the French National Assembly rejected the EDC Treaty (European Defense Community, May 1952), rendering the process of European integration...." (Oudenaren, 1999, p. 245).

In fact, the negotiation on the North Atlantic Treaty also faced difficulties by examining the European versus the American visions about the development of the collective defense structure. The American idea derived from the President Woodrow Wilson's idea about common security commitments and states' responsibility. That new vision presumed all European states' involvement in an

alliance. However, France, having historical experience with German belligerence, was reluctant to such intention and proposed keeping German military capabilities limited. Many political experts concluded and opted for the US perspective since the other proposed arrangements would have been the same mistake as Versailles Treaty after the First World War. As a result, NATO as a Euro-Atlantic community became a collective defense organization promoting all European interstates security and defense integrations.

The main security pre-occupation of NATO during the cold war was a Soviet threat and a nuclear weapon factor. The former factor (external threat) "was remarkably reliable stimulus for political cohesion in NATO" (Yost, 1998, p. 32). Ironically, the destructive and unpredictable Soviet policy in the Eastern Germany (1953), Hungary (1956), Czechoslovakia (1968) and Afghanistan (1979) only reinforced the consensus among the Euro-Atlantic allies. Furthermore, the Alliance established an innovative decision-making process, which presumed political consultations and coordination, *common defense planning, denationalization of defense, creating capability of international peace support operations*. As a result, in the long-term these innovative factors along with the developing European Union factor contributed towards shaping *common political identity in peace time among the democratic states*. Therefore, after the Soviet Union dissolution in 1991, NATO proved to become not only a collective defense alliance, but also a *common defense identity community with a complex interdependence*. As an effect, the Organization's members simply have not tended toward dissolution because of the timely-tested political and economic stability supported by a collective defense arrangement, a common identity and common values.

For the same reasons, the Euro-Atlantic community did not evolve into the OSCE, but rather adapted itself to the new security challenges. In this context, the Alliance promoted new initiatives such as the North Atlantic Cooperation Council (1991), Partnership for Peace Program (1994), Euro-Atlantic Partnership Council (1997), Mediterranean Dialogues (1995), NATO-Ukraine Commission (1997), NATO-Russia Permanent Council (1997) revised in 2002 as well as other initiatives. Therefore, the NATO phenomenon became a fact that an alliance, having a common identity and values, has become stronger and more attractive for enlargement. After the cold war, twelve European states became NATO members, while some of them became the EU members.

In summary, the Euro-Atlantic Community survival after the cold war was based on the previously-mentioned factors, but the most important one - de facto creation of a collective defense community in peace time by the democratic states with free market economies, which substantially contributed to the EU efforts for development of the common political identity (Wendt, 1992, p. 417):

analysis of this problem would suggest that four decades of cooperation might have transformed a positive interdependence of outcomes into collective 'European identity' in terms of which states increasingly define

their 'self-interest'. Even if egoistic reasons were its starting points, the process of cooperating tends to redefine those reasons by reconstituting identities and interests in terms of new inter-subjective understandings and commitments.

## 2.2. *International Organizations' Complex Interactions in Europe*

Currently de facto European cooperative security system is a combination of interdependent political, economic and military tools, which has established a capability to adequately manage *hard* and *soft* security issues. The important system's factor is the indirect inter-connection of the European Union (political institution) with NATO (security-defense institution) and other international collective security organizations – the UN and the OSCE.

First of all, all European NATO states are the UN members confirming their responsibilities to settle any international dispute by peaceful means in the Washington Treaty of 1949: "The Parties to this Treaty reaffirm their faith in the purposes and principles of the Charter of the United Nations and their desire to live in peace with all peoples and all governments." Thus, NATO is a legal connection to the UN, which preserves Charter's Article 51 for the right of individual or collective self-defense. However, such inter-connection does not mean that NATO members always agree on security issues in the UN. For instance, the UN Security Council's members France and the U.K. opposed to the American backed up resolution about bombing of Bosnia and Herzegovina in 1994-1995. In that situation, the U.S. was not willing to sacrifice relations with NATO members and sought another consensus solution. The fact demonstrated how double memberships makes states' interaction even more interdependent.

Additionally, the OSCE, where NATO states are members as well, used to be a balanced dialogue (CSCE) between former cold war adversaries. Nowadays, due to the post-cold war nature, OSCE assumed the new responsibilities: early warning, conflict prevention, crisis management, post-conflict rehabilitation as well as democratic development, human rights and democratic elections monitoring (Croft, 1999, p. 115). However, the OSCE has not overall created timely-effective decision making and crisis management mechanisms, which would have prevented and solved international conflicts such as Bosnia and Herzegovina, Kosovo or Georgia. Therefore, the OSCE has connected states for a collective security purpose, but neither has provided strong security guarantees nor has created strong identity as the EU and NATO have done.

Analyzing only the European Union, the dilemma became obvious since the majority of the EU member states are also members of NATO. Furthermore, the EU members in NATO have strived to promote a common political position on many issues according to the CFSP, which periodically created disagreements with other NATO allies (non-EU members). Nonetheless, the NATO collective defense

possibilities leveled such disagreements. In fact, all NATO states support the political and security development of the EU. Meanwhile, the EU enlargement policies are much stricter and challenger for applicant states compare to the NATO *open door* policy. Therefore, the EU and NATO members found a solution of the disagreements regarding the future European-led security arrangements by developing a European Security Defense Initiative (ESDI) within NATO to exclude duplications of efforts and resources.

In fact, the cold war created a stereotype of the European military dependence on the U.S. Such legacy has pressed some European states to seek the ESDP, which would offer more flexibility outside NATO. As a result, the 1992 Maastricht Treaty on European Union and 1992 "Petersberg Tasks" sought to create the CFSP with the ESDP built through a revitalized Western European Union (Kay, 1998, p. 123). In the created situation, France insisted on a completely-parallel structure to NATO, Germany viewed the situation as an opportunity to re-attract France back to the NATO military orbit, the U.K. wanted the ESDP within NATO and the U.S. showed strong opposition. The complexity of the situation was an unclear role of the decision making in the newly-proposed security arrangement as well as inadequate military capabilities. Additionally, some NATO members (non-EU members) opposed to using the NATO assets for activities beyond its control.

Eventually, the Bosnian conflict (1995) would clarify the weakness of the potentially-independent ESDI in that time. As a compromise, at the meeting in Berlin (1996), the NATO foreign ministers approved the earlier developed Combined Joint Task Force (CJTF) concept, supporting the development of the ESDI within Euro-Atlantic community efforts. Thus, that complex situation was solved by supporting the EU to evaluate and develop more cost-effective military arrangement - Rapid (Responsive) Reaction Forces for international peace support operations.

On the whole, the interactions of European states as a community in the different international organizations have proved not to harm the primary objective of a community survival – political identity with collective security and defense. The complete return of France to NATO structure in 2009, after the absence since 1966, was another timely proof of the effectiveness of such EU-NATO arrangements. Thus, the created community in the Europe Union zone has developed *multiple channels* connections, which are combinations of international organizations along with trans-governmental organizations and actors. These *multiple channels* connections are supported by a common political identity - the European Union and a strong collective defense identity – NATO.

## CONCLUSIONS

In respect to the de facto established new cooperative security system in Europe, the EU proved to have developed a common political identity and NATO has proved to be practical and strong collective defense factor. Such common

political identity with strong collective defense capabilities has constructively contributed toward evolving European complex interdependence, which also implies involvement of other European international institutions. In the core of NATO survival in the present *Perpetual Peace* there are ideas and desires of the European states to create a collective defense organization. Besides the United States, the non-European democracy has also contributed to the overall organization's cohesiveness by providing extensive support and military burden. In the core of the EU success lays the principles of common identity, values and prosperity. As a result, NATO strong capabilities and states' commitments to collective defense and the EU political identity have been achieved *in peace time among the democratic countries with free market economies*.

In this regard, the EU and NATO became the community of states ready to protect their values of liberal democracies and free market economies. In another word, the Euro-Atlantic members created common identity, which plays important role not only in the collective defense but also in cooperative security. Thus, the EU and NATO became a consolidating factor for cooperative security in the Euro-Atlantic region promoting stability and sense of common identity and future. In the new conditions, NATO has not dissolved but rather evolved in a more flexible organization moving from only conventional collective defense function toward proactively combating new transnational security challenges in order to promote international stability. That fact became possible due to an evolved common political and defense community in Europe.

Thereupon, for the EU and NATO states it is important that the principle of collective defense and cooperative security with *denationalized countries' military capabilities* be maintained as the first priority in such configuration. Therefore, the EU and NATO enlargement shall be gradually technical by allowing future members to attain community values in order to become a part of the common *identity*. Otherwise, due to consensual decision making, rapid enlargement will undermine the alliance's cohesiveness and effectiveness. Consequently, a rapid expansion will affect the collective defense priority and potentially convert the EU or NATO in a typical security organization, which usually tends to collapse in the long term. That factor might undermine the European continent security because one of the international stability factors - *consensus among world asymmetrically-powerful states* - has not been achieved yet. In this regard, the question of *gains* and *losses* may again become sensitive for every European state.

In fact, the potential difficulty for Europe can be the question of *gains* and *losses*, taking account of the lasting economic instability in Europe (e.g. Cyprus or Greece crisis). For instance, the UN Security Council's members continue to think about gains and losses while conducting their foreign policy, which proved to have periodically undermined international security objectives. Overall, such theory reminds that the national foreign policy issues periodically prevail over the international necessity within the UN and OSCE. Therefore, for the EU and NATO

the *denationalized* collective defense proved to be more important than a weak enforcement mechanism of the collective security system (OSCE case).

In summary, the emerging European cooperative security system is a combination of international organizations and trans-national actors, which contribute to a complex interdependence. Importantly, strong defense and security guarantee of NATO and potentially effective CFSP/ESDP policies of the EU remain as the strong pillars of this complexly-interdependent system. Therefore, for European states it is important to practically develop the ESDP by ensuring *denationalization* of military capabilities directed towards the community's common identity, to maintain NATO, and not to ignore the timely-proved transatlantic factor. Such lessons are also important to be considered by the EU while developing and promoting cooperation within the Eastern Partnership.

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# THE CHANGE OF MENTALITY, A FORM OF EXTERNALITY. THE PARADIGM OF ISLAMIC SUSTAINABLE DEVELOPMENT

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**Abstract:** *Change may be perceived as any noticeable transformation over time that affects not only temporarily the structure of the social organization of a given collectivity. In the same time, it interferes with its historical path. Change requires, invariably, specific models of social development. It aims to modernize, to induce the development of the subject within the referred process. Without any doubt, the change involves the emergences of various categories of externalities. It is desirable that these externalities should be mostly positive so their effects could be quantified by an entire economic, social, political and cultural system. In this case, defining the Islamic sustainable development is an interesting approach. From Islamic perspective, the concept of sustainable development is compatible with the Islamic paradigm, because it incorporates moral values that need to be followed in the context of the application of socio-economic policies.*

**Keywords:** sustainable development, externality, mentality, Islamic paradigm

## INTRODUCTION

Changes often mean *acceptance*: those who adapt are considered market actors, and the one that generates change is the situation, through the *adaptation function*. (Boudon, 1984, p.276) Of course, such a function involves interdependence and multiple cause-effect relationships and as many types / categories of externalities (pecuniary externalities or non pecuniary ones, positive externalities or non positive ones). Here is an example to outline the statements mentioned before: „Industrialization caused the feeling of a rupture diversely understood/interpreted, of a separation between a before and an after, giving birth to some contrasting strong representations” says Bernard Valade. (Valade, 1997, p.357) Through multiple registers and operation levels, horizontally and vertically but also a mixture of these combinations, this change explores and assess at the same time. Not few were the ones that concluded, several centuries ago, that the economic unit required by the important industries, is not the family but the factory. Here is an argument for a change in mentality that Marx invoked when he admitted the fact that the new

production forces were the origin of social unrest, so common in that period, because while the economic foundation changes, a slower or a faster revolutionizing *superstructure* takes place. (Marx, 1954, p.9)

## 1. CHANGE IN MENTALITY, A PARADIGM OF SUSTAINABLE DEVELOPMENT AND A FORM OF EXTERNALITY

The concept of mentality is a very common one in the field of economics and especially when taking into consideration the necessity that human and his beliefs should evolve following the same path. However, as things evolve in history, mentality does not change just by appealing to conscience, but by remodeling the stimuli required by *change*. In order to highlight that, let's consider the following example: sometimes, at the level of individual mentality, uneducated from the economic point of view, persists the false conception, that everything that is governed by law is an attack to individual freedom. The state has always played an important role when talking about establishing the game rules. Supporting this theory, Karl Popper stated the fact that „without a legal system *chaos* is the only thing that can develop.” (Popper, 1998, p.50) He argues the fact that the state's action is crucial in setting a preliminary condition for the free market through the legal system and the rule of law. Nevertheless, this situation should not be considered „government interference in the market business.”

Let's also notice/observe the fact that mentality has a certain influence upon change. „Man has in him incorporated the great foundation of property” (Locke, 1999, p.79) stated John Locke, supporting the idea that individuals are their own masters, owning not only their persons, but also being the owners of their actions, namely their work. Taking into consideration the argument stated above (that 50 years of communism have decreased the inclination towards work of the South-Eastern European) this theory has, in the same time, developed distrust in what concerns the ownership advantage and properties owners. Often, the latter ones are regarded as true „profiteers”, the concept of private property inducing a negative connotation in the minds of ordinary individuals. The development of private property and implicitly of its size is often perceived as an attack to the security and welfare of the others, and the sense of envy that arises from that is unfortunately not properly channeled, but on the contrary, perceived as a destructive orientation.

The reality shows the fact that for a society to progress, it is necessary that some individuals take a step forward in the face of the others. In other words, inequality is viewed as a natural stimulant of progress although we are all born equal. „*Pathfinders*” are the ones who experience paths and processes, taking risks and hoping for large profits. However, the winners are not necessarily those who work more, but possibly those who knew how to speculate.

„*Creative destructions*” (Schumpeter, 1961, pp.361-389) is a generating factor of progress, and we admit the fact that the basis of this concept is provided by

the private property. It is a well known fact that psychologically speaking „*people are not likely to make maximum efforts unless their interests are directly involved.*” (Hayek, 1997, p.145) Therefore, frequently, it is only the imminence of obtaining an advantage that can stimulate individuals to be more efficient in their actions. But we can only speak about efficiency in correlation to private property. Only in this framework the rational allocation of resources is possible. What reasons impede us to say the same about public property? One possible answer is proposed by Christian Michel who states the fact that „The public companies are cheating the market by changing the mechanisms in their favor. Their main objective is not achieving economic efficiency, but instead obedience towards political and economical consideration.” (Michel, 1997, p.51)

Since the individual realized that the temporal evolution and socio-economic progress can be generated by competition – „competition leads to continuous improvement and efficiency of production.” (Wilcox, 1986, p.75) Just that the mentioned competition does not necessarily appeal to ethics and „social behavior and implicitly the moral one coexist with the egocentric behavior of maximizing the utility at many levels.” (Fukuyama, 2003, p.15) Therefore we are consistent with the ones who state the fact that individuals act in a way that defies utilitarianism, namely irrational. At the same time, this way of thinking and acting may be considered the only generator of material earnings.

On the other hand, some highlights of the change in mentality remain: „reciprocity, moral obligation, the sense of duty to the community and trust, which have their origin more in the rational calculation which is not anachronistic in a modern society but the sine qua non of their success.” (Fukuyama, 2003, p.9) Following this idea „if the institutions of democracy and capitalism work together properly, they should cohabit with some pre-modern cultural habits in order to assure their smooth path” – because, apparently, law, contract and economic rationality constitute „the necessary foundation, but not the sufficient one in order to assure the stability and prosperity of post-industrial societies.” (Fukuyama, 2003, p.9)

An example of this may be considered the following one: Francis Fukuyama questions the simplicity used by the neoclassics in order to generate and model the human behavior, considering it selfish and rationally oriented towards the maximization of the utility. Citing cultural assumption, the author admits the fact that it models – in turn – the individual’s behavior, transmitting virtues and inter-generational meanings as symbols or traditional approaches (being generating factors of externalities namely positive and non-pecuniary). Ethical habits, such as the ability of spontaneous association, are considered critical in the light of new forms of economic organization and cause a significant variation in economic structure. In other words, it may happen that the more gifted ones with the ability to maximize the utility may not be the most rational ones; the ones that provide moral and socio-traditional virtues in an irrational manner may not be considered so

disabled or chaotic as some economists would like us to believe. (Fukuyama, 2003, p.24)

The modern world is dedicated to the important economic, political and social changes that require different interventional procedures and mechanisms (yet, not always generating positive externalities). There is no complete consistency in any economic system and due to this fact we do not notice the identity of options. Therefore, it is not necessarily beneficial for the best ones, but rather for the ones that are stronger or the ones that adapt better to the changes. In our case, in general, the efficient economic system will consist an example for the ones that obtain weaker results. As Friedrich Hayek stated: “The view that all efforts should be guided by the opinion of the majority, or that a society harmonizes better when it conforms to the majority, reverses the main principle on which the growth of the civilization was based. Its implementation at a general scale would probably imply stagnation, if not the declining of the civilization.” (Hayek, 1998, p.131)

For centuries, the economy was considered a science that involves the study of wealth. But it is also true the fact that „if welfare increases, then the pride, the passion and the love for the secular increase in all their forms”, even though we cannot prevent people from being diligent and thrifty. We must encourage all Christians to earn and save as much as possible, thus getting richer.” (Weber, 2007, p.185) Can this be considered a landmark that, *inter-temporally*, enrichment can not only be useful but also moral? For some societies the answer is yes; but generally for oppressed/poor social classes, wealth remains a source of inequity.

But are there any honest or dishonest societies or entirely good or bad? Of course not, as no external effects of the actions in every society (externalities derived from them, whether personal or impersonal) are neither purely *positive nor negative*. But here is a different type of answer: „If we consider a society bad in itself because it allows inequality between earnings (*capitalism*) and take into consideration as a main goal an egalitarian society (*socialism*) it would be illegal to consider such a preference a non-economic one. It is also possible to consider it a rational one, if it's not formulated in full knowledge of the *sacrifices* it entitles. And we cannot obtain that unless we understand not only the essential nature of the capitalist mechanism but also the required conditions and the inherent limits of the type of society that is expected to be replaced.” (Robbins, 1993, pp.124-125) Here is how rationality should dominate subjectivism, in the idea of defending the values of capitalism and *critiques of its avatars*. As a result, the common economic-historical argument may balance *scientific egotism* of each of those two fractions of truth (economic/social) considered separately.

Currently, the world is going through a period of multiple changes that develop with an unprecedented speed. All we know and apply today, tomorrow there may not be enough, because survival itself has become a problem. Not few are the ones that are tired of a constant running towards a more or less certain future, not longer having the ability to adapt to some overwhelming changes. Given these

reasons, we believe that the *rhythm* of change is more important than its meanings, given the conditions in which the correlation between *information and power is emphasized*.

The dependency of the information on at least one source of power entitles us to say that power (economic, political) has become today more complex in content than ever before (actually causing multiple externalities, positive or negative, generally pecuniary). Therefore, a disturbing process of concentration of information is taking place in the developed countries, generating the increase of economic disparities around the world, together with direct dependence of less developed countries to the ones that lead the world. The problem is that recently, countries or even geographical areas (see the Asian offensive of the old and the new „tigers“) migrate – surprisingly or not – towards power poles, counter parting the once predestinated spectrum of the classical hierarchies.

Paradoxically, in the contemporary society, authority's regression, which is recorded in different circumstances, everywhere in the world – does not necessarily mean the increase of the degree of freedom (including the social, cultural and economic mentality). The tendency of decreasing the creation capacity (negative externality) has been ascertained, but the tendency of expression an increasing amount of information has increased (apparently positive externality, which does not exclude for example the false information, „dumped“ on the market with the purpose of misleading the opponent). Therefore, *mentality change constitutes a real form of externality (positive or negative) as a result of human action*.

Michel Didier notes the fact that „the tool may enhance human strength, but it will never completely replace it.“ (Didier, 1994, pp.27-28) Drawing a parallel, we consider that mentality – as an attack weapon of the developed economies – may multiply the value and the sense of power (take into consideration the example regarding the „*cult of personality*“ that exists at all levels, administrative and political, in many countries).

Therefore, as a result, identifying the change of mentality (the progress) as part of the „capital“ that every business needs, we can distinguish it from other components with which it works, because theoretically it is „extensible“ as long as the operating limits of the human intelligence and resistance to change are still unknown. The most interesting fact is that this change juxtaposes over those externalities that itself generates.

The reaction of any individual (*the feed-back*) might be regarded as the power peak, in all its complexity and with all its inter-conditional components. For such a reason, knowing that our existence spheres (social, political and economic) are interlinked, and any action that affects the mentioned areas will more or less affect the other ones (and the extreme result of applying a manipulation based upon subliminal perception could be the destruction of the entire humanity).

Alvin Toffler expressed very plastically an extremely simple reality: life can be understood looking back, but must be lived looking forward. Could we consider

this an argument for the frequent complaints of post-industrial society? Some admit that the abundance created within such a system can only be obtained through „disordered” accumulation, as a result of meeting certain artificial needs. Others argue that post-industrial stage suppresses creativity offered by the change in mentality, regarding it as a less desirable scenario.

The economic war at the beginning of the third millennium is played between riches and poor or more precisely between agricultural and industrialized civilizations on the one hand and the new mentality and information civilizations on the other hand. This last phrase is shortly characterized by at least two main features: the globalization of business and finance as well as the acceptance of economic and cultural intrusion in a true defiance of nationalism and borders. Since full decoupling of previous events is possible, it generates not only a generic problem in the world, but also a continuous struggle of the new civilization. Real or not, its purpose is to establish a global hegemony, based upon the conscious effort (though relatively less coordinated) of the developed countries, to detach from the others, strategically rethinking both the infrastructure as well as the superstructure of the computer civilization. In such conditions, is it appropriate to invent a new civilization?

In this context one may say that accepting other opinions (the change of mentality) represents the growth key of the XXI century, where technologies dependent on computers and information will replace the industrial technologies (especially because the production of information nowadays is superior compared to the one available in the past).

Michel Didier stated the fact that „Beyond the proportions we must consider figures. Today, there are four times more people as there were in the time of Napoleon III, but thirty times more people who know how to read and write. (...) The map of knowledge is redrawing itself.” (Didier, 1994, p.267) Paraphrasing his idea, we may say that without any doubt power coordinates are changing, only that they often do it for other purposes instead of progress. Thus the change of mentality becomes a vital component of reality, namely the one responsible for the dominant interest in the society.

The change of mentality represents, in our opinion, one of the determinant factors of progress, namely of sustainable development, because it favors temporal shifting of human values and achievements, from certain parts of reality to others. But many researchers are concerned with the actual compatibility between current economic growth rates and the sustainable development of environment. (Faucheux, O'Connor, van der Straaten, 2010, pp.6-8) It is common knowledge that development is sustainable if there is a dynamic balance between social, economic and targeting environment principles. Based on this fact and correlating sustainable development with the economic one, we gather the following principles: priority in using intensive growth factors, orientation towards the use of renewable natural resources, lower production of intensive goods in energy and materials; introduction of viable technologies for exploitation of unconventional resources, use of „friendly”

technologies, more efficient use of recycled materials, increase in the quality of long-term assets, changes in the pattern of consumer preferences, stimulus use for increased services related to restoration and conservation, optimization of the geographical location of production (taking into account the auxiliary costs of materials and energy).

However, let's not forget that the change of mentality refers primarily to the social component of the sustainable development equation. It includes increasing wealth and improving its distribution mechanism. The existence of a social justification of the changes occurred in the last years worldwide is very logical, in order to emphasize the socio-economic aspects and also the institutional ones related to sustainability, and to find alternatives for this concept (Gechev, 2005, pp.25-30, 38-42) (hiring as much work force, eliminating poverty, income redistribution, stable revenues for poor households, increased purchasing power, protecting consumer rights, access to health systems, education and information exchange, national security, political freedom and human rights compliance, preservation of cultural heritage) .

Sustainable development is however a dynamic concept. Nowadays we do not discuss, in realistic terms, about a final stage that society should achieve – or rather about promoting sustainable developments, but about the way to achieve it. And mentality change, in the sense of promoting sustainable development embodies future alternatives. Beyond changes in attitudes, values, innovation or policy changes along with economic restructuring, countries should look for that state of mentality that forces the transition to a sustainable future, not just durable. Of course this implies something different for every society, but we cannot deny some normative principles (common features) that guide us: the acceptance of the general truth pointed in relation with the welfare concept, avoiding the situation when progress is not possible.

Precisely for these reasons, related to the contradiction between its realistic and idealistic arguments, the change of mentality, with all the externalities involved, represents a true paradigm of sustainable development, remaining a controversial topic in economic theory and practice.

## **2. THE ISLAMIC PERSPECTIVE ON THE CONCEPT OF SUSTAINABLE DEVELOPMENT**

Defining the sustainable development is a complicated approach. This is because the concept covers undeniably ethical, moral, social and political elements which will move the discussions to the field of polemics and exchange of ideas. Thus, the national character, understanding by that the concreteness of each country's situation, the situation of its population, their own needs to stimulate the process of growth, the production and consumption elements, the environmental features, its specific philosophy of life, etc., is given the configuration, the concrete

substance and contour to the sustainable development policies within each national perimeter. (Pohoățã, 2003, p.16)

From an Islamic perspective, the concept of sustainable development is compatible with the Islamic paradigm, because it incorporates moral values that need to be followed in the context of the application of socio-economic policies.

A more comprehensive and understandable definition of this process is that the sustainable development involves the fact that it satisfies the needs for the present generations without compromising the ability for the future generations to meet their own needs. (Brundtland Report, 1987). It follows from this definition the cognition of two moral and ethic concepts: the care or intra-generational equity and the inter-generational one.

According to Zubair Hasan, the sustainability requires three distinct steps:

- a sustained long-term economic growth rate;
- the achievement of an inter-generational fairness on the use of limited resources;
- preserving a high quality environment.

In contrast to the mainstream economics, the Islamic paradigm offers an integrative growth theory by achieving a balance between the individual needs and wishes and the essential social goals. Thus, besides the positivist growth, measured in terms of quantity, there must be a coordination with other important endogenous elements in terms of their social direction, like education, health and individual freedoms.

From Islamic perspective, the concept of sustainable development includes the following qualities and features: it is a multipolar process whereby the sustainable economic development requires a long-term economic growth; the use of non-renewable resources in a rational manner, in order to ensure the inter-generational balance; the control over the excessive pollution on the environment. It appears, therefore, a new perspective, according to which an economy that satisfies both the material and hedonistic needs and also the spiritual ones offers a superior quality of life. (Ploeanu, 2010, p.73)

As Quran teaches us, man is God's representative on earth, who possess all the needed resources. Therefore, Sharia encapsulates the natural law which allows the whole community to adjust (balance) the individual behaviors and the collective ones. First, this rule requires a call to all the spiritual virtues instead of the material elements, to satisfaction over the personal greed, to patience over haste, to thrift over the maximization process, to balance over risk, to cooperation over competition and to justice over corruption. (Zubair, 2006, p. 16)

Sharia objectives or Maqasid pursue for such dynamic elements for the socio-economic processes and stress the imperative need to put in the forefront the environmental issues, covering a variety of inter-generational fairness in the distribution of wealth and prosperity, the conservation and the avoidance of exuberant consumption, along with the environmental protection.

The following verses emphasize God's created world in harmony and balance, "in truth", but the imbalances created by human sins and flaws, the irrational consumption, the greed, the waste of non-renewable resources, the environmental pollution, fully justify the Sharia goals and legitimize such an approach, in order to mark a recalibration of the lost balance.

Thus, in Quran, Surah 67, verses 3-4 it says that what God created is flawless: "[And] who created seven heavens in layers. You do not see in the creation of the Most Merciful any inconsistency. So return [your] vision [to the sky]; do you see any breaks? / Then return [your] vision twice again. [Your] vision will return to you humbled while it is fatigued." In Surah 39, verse 5, it is emphasized that: "He created the heavens and earth in truth. He wraps the night over the day and wraps the day over the night and has subjected the sun and the moon, each running [its course] for a specified term. Unquestionably, He is the Exalted in Might, the Perpetual Forgiver." And in Surah 30, verse 41, the world, left to the people to benefit them, is suffering irrecoverable losses that are passed on them, creating important negative externalities: "Corruption has appeared throughout the land and sea by [reason of] what the hands of people have earned so He may let them taste part of [the consequence of] what they have done that perhaps they will return [to righteousness]."

A vision such as the one addressed by neoclassical model of steady state scenario, integrated in the mainstream economics, has a number of inaccuracies compared to Islamic economics. On the one hand, the steady state model is built on an indefinite time horizon, contrary to the statements in which decisions take into account well-defined time intervals. On the other hand, in a dynamic and adjustable economic point of view, regarding the economic growth components which change over time, there may be qualitative and quantitative changes over them, which will lead to the loss of intertemporal comparability option. (Plopeanu, 2010, p.74)

Zubair Hasan highlights two types of sustainability:

- the strong sustainability, which assumes that the rate of change for the quantitative element of growth remains positive, regardless the analyzed time interval;
- the weak sustainability, which assumes that the rate of change for the intrinsic element of economic growth becomes an analysis for the general trend that it is considered to remain positive during the analyzed time interval.

The same author shows that most economists prefer the weak sustainability scenario, considering the correct assumption that the present value of the economic development benefits are positive and may be maximized.

Regarding the Brundtland Report (1987) from the World Commission on Environment and Development, it was held here the concept of equity between generations (inter-generational one), which is, in fact, the current generation's fairness and justice to children, youth, adults and elders, since the present generation benefits from the use of existing stock of resources, while the consumption costs are socialized by the future generations.

Frank Ramsey (1928) attempted to highlight the importance of present decisions in shaping the behavior of the future generations. From his point of view, sustainability can be a living and active concept if the present generations can bequeath the social welfare for the future ones only if they are moderate and sober, saving more. Ramsey, in the purest Benthamian's utility tradition, refuses Pigou's time preference angle, an omission which leads him to invent the "bliss-points" in terms of the impossibility of making comparisons between infinite amounts of utilities.

Both the Brundtland Report and Ramsey's theory involve more than the conservation of resources; moreover, they highlight the role of the spiritual needs in an economic growth mechanism, in addition to the pure material ones. Maqasid or the objectives of Islamic law intersects previous theories in terms of attention to the inter-generational equity, the social welfare, the temperance, the moral control over the irrational consumption. Also, the greed for the consumption of rare resources, thus resulting a series of negative externalities, is prohibited by Maqasid and it leads to the idea that Islamic economics is, a priori, the one that promotes the long-term sustainability. (Plopeanu, 2010, p.75-76)

The Islamic paradigm is clearly distinguishable from the mainstream economics, which considered the doctrine of naturalism as the key element of the Western paradigm. Naturalism that claims from realism, has, in its own epistemology, the Darwinian evolutionary theory and the mechanistic Newtonian one.

## CONCLUSIONS

The change of mentality refers primarily to the social component of the sustainable development equation. That is why, the change of mentality, with all the externalities involved, represents a true paradigm of sustainable development, remaining a controversial topic in economic theory and practice.

Mentality does not change just by appealing to conscience, but by remodeling the stimuli required by *change*. Mentality has a certain influence upon change. A legal system is a compulsory feature in this scenario. The rule of law, the legal contract and the economic rationality constitute the necessary foundation in order to assure the stability and prosperity of post-industrial societies.

We believe that the *rhythm* of change is more important than its meanings, given the conditions in which the correlation between *information and power is emphasized*.

The change of mentality represents, in our opinion, one of the determinant factors of progress, namely of sustainable development, because it favors temporal shifting of human values and achievements, from certain parts of reality to others. But many researchers are concerned with the actual compatibility between current economic growth rates and the sustainable development of environment.

In contrast to the mainstream way of thinking, the Islamic paradigm offers an integrative growth theory trying to establish a balance between the individual needs and the social goals.

From Islamic perspective, the concept of sustainable development includes the following qualities and features: it is a multipolar process whereby the sustainable economic development requires a long-term economic growth; the use of non-renewable resources in a rational manner, in order to ensure the inter-generational balance; the control over the excessive pollution on the environment. It appears, therefore, a new perspective, according to which an economy that satisfies both the material and hedonistic needs and also the spiritual ones offers a superior quality of life.

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## THE EUROPEAN UNION AND THE MIDDLE EAST: AN UNUSUAL PARTNERSHIP

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**Abstract:** *The relationship between the European Union and the Middle East is very complex. On the one hand, because the European Union, as one of the most important economic powers in the world, has various commercial transactions with the Middle East countries, and on the other hand, because the European Union's aim is to become an important global player, it wants to exert a positive influence in this region. The purpose of this paper is to analyze the way in which the European Union manages the relationship with the Middle East, based on the two aspects. To achieve this goal, the study uses both theoretical and empirical data in the recent years. The paper is divided into two parts: an analysis of the commercial transactions of the EU with the Middle East and an analysis of the European Union foreign policy in the Middle East. The findings revealed that there is a contrast between the economic power of the European Union and its foreign policy. More specifically, the European Union is having problems acting as a credible player in the Middle East region. It is imperative for the political and social relations between the two entities to strengthen, both for the benefit of the European Union and of the Middle East.*

**Keywords:** the European Union, the Middle East, trade, foreign policy, democracy promotion

### INTRODUCTION

The definition of the Middle East has a geo-cultural dimension rather than a geographic one. The Middle East lies between Egypt and Iran and includes River Nile and Mesopotamia. Due to its geo-cultural characteristic, the Middle East includes countries from both North Africa and South-West Asia. This means that the Middle East is a cultural area; it is more than an area with just physical borders.

According to World Trade Organization (2012), the countries that belong to the Middle East are Bahrain, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, The Palestinian Territories, Qatar, Saudi Arabia, Syria, the United Arab Emirates and Yemen. Still, in other studies, the Middle East also includes Turkey and Egypt.

Because of the geographical proximity, in time, Europe has been interested in the situation of the Middle East countries, as well as it has been affected by the events in the region. Also, the historical ties between Middle East and some European countries explain why the European Union has turned its attention to this region. The current EU members: France, the UK, Italy and Spain had colonies in the Middle East in the past. Presently, the colonial past of some EU member states has turned back as immigration to these countries (Dagci, 2007, p. 179).

At the same time, Middle East is the world's most important energy-producing region, holding the largest proven oil and natural gas reserves. In addition to these geological advantages, most Middle Eastern countries enjoy close relations with the member states of the European Union. Moreover, the European Union is the main trading partner for several Middle Eastern states, with oil representing a large and growing proportion of this trade volume (Bahgat, 2006, p. 973).

In short, the geographical proximity and Middle East's oil reserves explains the EU's various commercial transactions with the Middle East countries. However, the trade relation is not the only one between the European Union and the Middle East. Since the European Union wishes to be a leading global political actor, it has paid a special attention to its neighbours in the Middle East. For this purpose, the EU's foreign policy in Middle East has been directed toward the promotion of Human Rights, rule of law and democracy. In fact, the EU's influence or potential as a global actor can, to a large extent, be appraised by this capacity and commitment, and resulting success or otherwise, in achieving declared aims of democratization and improvements in human rights (Wood, 2009, p.114). Democracy promotion has gradually established itself as a central component to European foreign policy, expressed through an array of different instruments.

On the other hand, Europe has showed greater willingness lately to play a larger part in the Middle East's most protracted conflict, that of Israel and Palestine. It can be concluded that the European Union has invested great efforts to solve the conflict in the Middle East. But the Middle East conflict is perhaps the best example of disparity between the found costs and results achieved in the peace process (Musladin, 2012, p.68).

In any case, it is important that the European Union, through its involvement and position, is connected to the situation of the Middle Eastern countries, as the recent events in this region have underlined, willing to attain a role and be an influential actor in the region.

## **1. THE EUROPEAN UNION AND ITS ECONOMIC RELATIONS WITH THE MIDDLE EAST**

### **1.1. The European Union and the trade with the Middle East**

The Middle East constitutes a cultural geography in which nations from various ethnic, religious backgrounds have been living together. At the same time, these nations have different social, economic and political conditions. Due to these different conditions, the European Union has been implementing its policies by three instruments: the European Neighbourhood Policy, Cooperation with the Cooperation Council for the Arab States of the Gulf (GCC) and Cooperation with Iraq, Iran and Yemen.

#### *1.1.1 European Neighbourhood Policy*

The European Neighbourhood Policy (ENP) was developed in 2004 and includes political association and deeper economic integration, between the European Union and 16 of the EU's closest neighbours. The Middle Eastern country members of this partnership are Egypt, Israel, Jordan, Lebanon, the Palestinian Authority and Syria. In the case of Turkey, because of its candidacy to full membership of the European Union, the country is not a member of the European Neighbourhood Policy and that is why its trade with the European Union will not be analyzed.

The ENP is mainly a bilateral policy between the European Union and each partner country. In 2010-2011, the European Union reviewed the European Neighbourhood Policy and strongly focused on the promotion of deep and sustainable democracy, accompanied by inclusive economic development.

According to the European Commission (2012), the European Union has a commercial relation with Middle Eastern countries included in the European Neighbourhood Policy, as follows:

- Between the EU and Egypt there is an Association Agreement, in force since 2004, that establishes a free-trade area with the elimination of tariffs on industrial products and significant concessions on agricultural products. Also, Egypt is a major trading partner for the EU in the Southern Mediterranean region;
- The trade relations between the EU and Israel are based on the Association Agreement, which entered into force in June 2000, aiming to provide an appropriate framework for political dialogue and economic cooperation between the EU and Israel;
- Between the EU and Jordan an Association Agreement was concluded, in force since May 1<sup>st</sup> 2002, that establishes a Free Trade Area between the EU and Jordan over 12 years;

- The EU-Lebanon Association Agreement sets that Lebanese industrial as well as most agricultural products benefit from free access to the EU market;
- Between the EU and the Palestinian Authority there is an Interim Association Agreement on Trade and Cooperation, since 1997. Due to difficult economic situation and restrictions on movement and access, trade with the EU is very limited;
- Bilateral EU-Syria relations are governed by the Cooperation Agreement signed in 1977. However, the signature of an Association Agreement between the EU and Syria has been put on hold by the EU due to the internal situation in Syria.

**Table 1. European Union, Trade with the Middle Eastern countries included in the ENP (Egypt, Israel, Jordan, Lebanon, the Palestinian Authority, Syria)**

<b>Period</b>	<b>Imports (billions of euro)</b>	<b>Exports (billions of euro)</b>	<b>Balance (billions of euro)</b>
<b>2009</b>	20.2	33.7	13.5
<b>2010</b>	24.7	40.1	15.4
<b>2011</b>	28.4	41.8	13.4

*Source:* Eurostat

According to the data in Table 1, bilateral trade between the EU and the Middle Eastern countries included in the ENP has been increasing steadily over the past years. Also, for most of these countries, the European Union is their first trading partner. They export energy goods, chemicals, mineral products, machinery and mechanical appliances, transport equipment in the European Union, while importing machinery, mechanical appliances, chemicals, transport equipment.

#### *1.1.2. Cooperation with the Cooperation Council for the Arab States of the Gulf (GCC)*

The Cooperation Council for the Arab States of the Gulf (GCC) is a regional organization, with 6 members: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates, set up in 1981. The EU established bilateral relations with the GCC countries through the 1988 Cooperation Agreement, intended to (European Commission, 2012):

- strengthen stability in a region of strategic importance;
- facilitate political and economic relations;
- broaden economic and technical cooperation;
- broaden cooperation on energy, industry, trade and services, agriculture, fisheries, investment, science, technology and environment.

Besides that, the GCC is the EU's fifth largest export market (almost €75 bn's worth of exports in 2011), and the EU is the grouping's biggest trading partner, with trade flows totaling €130 billion, or 13.5% of the GCC's global trade.

**Tabel 2. European Union, Trade with GCC**

<b>Period</b>	<b>Imports (billions of euro)</b>	<b>Exports (billions of euro)</b>	<b>Balance (billions of euro)</b>
<b>2009</b>	22.7	57.5	34.2
<b>2010</b>	35	65.3	30.2
<b>2011</b>	56.9	72.9	15.9

*Source:* Eurostat

As we can see from Table 2, trade with the GCC has increased in the past years. The European Union mainly exports machinery and transport materials to this region, while it imports fuels and derivatives.

### *1.1.3. Cooperation with Iraq, Iran and Yemen*

The European Union has different cooperation agreements with Middle Eastern Iraq, Iran and Yemen.

On the one hand, although there is a practical cooperation between the European Union and Iran, this is currently below potential. Negotiations for a Trade and Cooperation Agreement between the EU and Iran have been put on hold since August 2005, when Iran started to intensify its nuclear activities. Also, because of Iran's proliferation-sensitive nuclear activities, the EU's trade with Iran is subjected to some restrictions, for instance: banning the exports and imports of arms, goods and technology related to nuclear enrichment, certain chemicals, electronics etc.

On the other hand, the European Union has signed, in May 2012, a Partnership and Cooperation Agreement (PCA) with Iraq, which is, in fact, a commercial agreement. Through the Partnership and Cooperation Agreement, the European Union aims to (European Commission 2012):

- Facilitate Iraq's engagement with the international community and particularly with the EU to the benefit of the internal and regional stability process;
- Stimulate and anchor ongoing institutional and socio-economic reforms;
- Contribute to the socio-economic development of Iraq and to the improvement of living conditions in the country;
- Promote bilateral trade relations in accordance with the WTO principles;
- Ensure a minimum level of predictability, transparency and legal certainty for economic operators;

- Improve the trade arrangements between Iraq and the EU.

As a result, Iraq is an important trading partner in the Middle East and a key strategic energy partner for the EU.

Last, but not least, the relation between the European Union and Yemen is currently governed by a Cooperation Agreement, signed in 1998, focusing on commercial, development and economic issues.

**Table 3. The European Union, Trade with Iran, Iraq and Yemen**

<b>Period</b>	<b>Imports (billions of euro)</b>	<b>Exports (billions of euro)</b>	<b>Balance (billions of euro)</b>
<b>2009</b>	15.8	14	-1.8
<b>2010</b>	21.8	15.3	-6.5
<b>2011</b>	26.2	15.2	-11

*Source:* Eurostat

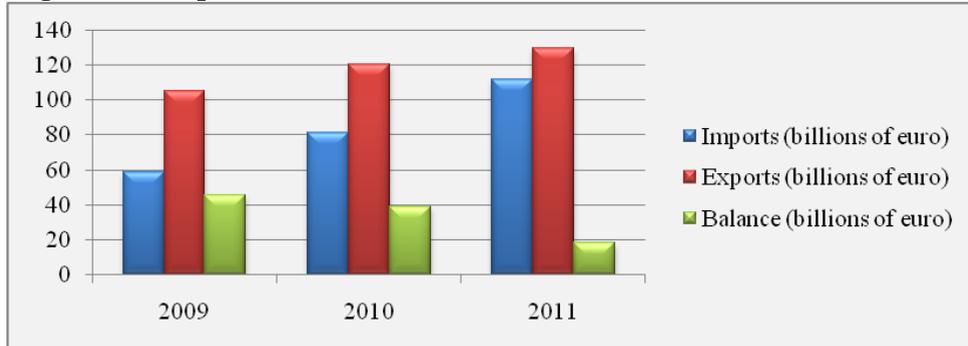
To sum up, the European Union has very important trade relations with the Middle Eastern countries. Middle East is a major trading partner for the European Union with total trade amounting to approximately €241.4 billion in 2011.

**Table 4. European Union, Total Trade with Middle East**

<b>Period</b>	<b>Imports (billions of euro)</b>	<b>Share of total EU Imports (%)</b>	<b>Exports (billions of euro)</b>	<b>Share of total EU Exports (%)</b>	<b>Balance (billions of euro)</b>	<b>Total Trade Value</b>	<b>Share of total EU Trade (%)</b>
<b>2009</b>	58.7	4.9	105.2	9.6	45.9	163.9	7.1
<b>2010</b>	81.5	5.4	120.7	8.9	39.1	202.2	7.1
<b>2011</b>	111.5	6.5	129.9	8.4	18.3	241.4	7.4

*Source:* Eurostat

According to Table 4, the Middle East is covering more than 7% of EU's trade volume. That shows that the European Union and the Middle East have an important trade relation. Consequently, at least in economic terms, there is a strong partnership between the two regions.

**Figure 1. European Union, Trade with Middle East**

Source: Eurostat

## 1.2. The European Union and the dependence of the Middle East oil

Oil is the fuel that drives the economy and its regular supply is vital for sustainable, economic and social development of countries. The world is heavily dependent on oil for meeting its energy requirements. Oil reserves are unequally distributed, with over 60% of the world's oil reserves concentrated in the sedimentary basins of the Middle East (Gupta, 2008, p. 1196). The European Union countries have very little indigenous crude oil production and that is why the European Union has very high dependence on imports.

Nevertheless, because the European energy demand and import dependence continues to increase, it is in the best interest of the European Union to maintain a good relation with the Middle Eastern countries oil suppliers.

**Table 5. Main origin of crude oil, EU-27, 2001-2009 (% of extra EU-27 imports)**

<b>Russia</b>	25.5	29.2	31.1	32.2	32.5	33.4	33.2	31.4	33.1
<b>Norway</b>	20.1	19.4	19.2	18.8	16.9	15.5	15.1	15.1	15.2
<b>Libya</b>	8.2	7.5	8.4	8.8	8.8	9.2	9.8	9.9	9
<b>Saudi Arabia</b>	10.8	10.1	11.3	11.3	10.6	9.1	7.2	6.9	5.7
<b>Kazakhstan</b>	1.6	2.4	2.7	3.4	4.5	4.6	4.6	4.8	5.4
<b>Iran</b>	5.9	4.9	6.4	6.3	6.1	6.2	6.2	5.4	4.7
<b>Nigeria</b>	4.8	3.5	4.3	2.6	3.2	3.6	2.7	4	4.5
<b>Azerbaijan</b>	0.9	1	1	0.9	1.3	2.2	3	3.2	4
<b>Iraq</b>	3.8	3	1.6	2.2	2.1	2.9	3.4	3.3	3.8
<b>Others</b>	18.3	18.8	14.2	13.4	14	13.2	14.7	16.1	14.6

Sursa: Eurostat Yearbook 2012

By analysing the information presented in Table 5 we can see that the main Middle East countries, source of crude oil imports in the EU, are Saudi Arabia, Iran and Iraq, with 14.2% of the EU imports, in 2009. However, in the past years, the EU's dependence on the Middle East oil has decreased from 20.5 % in 2001 to 14.2% in 2009.

As it has been noted, Europe has major economic interests in the region, both as a consumer of the Middle Eastern oil and as a producer of industrial goods, weapons and related military technology for which the Middle East constitutes a lucrative market.

## **2. THE EUROPEAN UNION AND ITS FOREIGN POLICY IN THE MIDDLE EAST**

The European Union has developed its foreign policy in the Middle East region through the promotion of Human Rights, rule of law and democracy. However, these values are very difficult to assimilate in the Middle East because some of them contradict the cultural and religious precepts that exist in this part of the world. At the same time, oil distribution has divided these states into two categories: countries with a strong economy and underdeveloped countries that depend on external assistance. Also, the EU is based on and promotes the principles of conflict prevention and resolution, internally as well as in its external relations.

Democracy promotion as a foreign policy goal has been widely used by the European Union in the Middle East, because the democracy deficit has been greatest in this area, despite some minor political reforms introduced.

The European Union's democracy-promotion strategy has been characterized by a long- term, cautious approach adopted for the sake of preserving short-term stability. Rather than directly confronting regimes in the region, the EU democracy-promotion programs have relied on more indirect methods, such as increasing support for "democratic values" and promoting cross-cultural dialogue. In fact, the European support in the Middle East is oriented notably towards cultural, education, development and governance projects. In the region's most closed societies –Syria, Libya, Saudi Arabia – the European governments have failed to establish a significant foothold for political aid work. At the same time, in several Gulf States, the largest share of European aid still goes to security forces with highly questionable human rights records.

The European Union has promoted democracy in the Middle East countries, through the European Neighbourhood and Partnership Instrument (ENPI) and the Development Cooperation Instrument (DCI). While ENPI engages with Southern Mediterranean countries and has an annual operational budget of €1.6 billion, the DCI deals, among other regions, with the Gulf countries, and has an annual budget of €1.4 billion (European Commission, 2012). However, the DCI applies only to Iraq, Iran and Yemen, considered to be Gulf Nations. As a result, the Gulf region has

been marginalized. For example, the Arab Spring, sparked demands for social and political change in the region and governments responded to these demands with financial gifts as in Oman, superficial reforms as in Saudi Arabia or coercive repression as in Bahrain. In this case, the European Union has failed to properly promote democracy in these needing Gulf countries.

Also, regarding the human rights and the rule of law, the European Union has helped the needy Middle East countries through financial aids. For instance, the EU has been one of the largest donors in the support of Iraq's political and electoral process with over €94 million since 2004, including deployment of an Electoral Assessment Team for the general elections on 7<sup>th</sup> March 2010. The EU has also watched with concern the situation of refugees from Iraq and internally displaced persons within Iraq. So far, the total support to the refugee crisis has amounted to more than €188 million. Also, in the case of Syria, the European Union has provided in 2012 € 150 million in humanitarian assistance and under the ENPI (European Neighbourhood Policy Instrument) the EU has contributed with around € 80 million to address longer term needs of the Syrian population (support to civil society, Human Rights defenders, refugees). At the same time, the European Union is the largest donor to the Palestinians.

What is more, the European Union, through the ENP, has offered some key recommendations to some Middle Eastern countries, related to democracy promotion. According to the European Commission (2013), while the recommendations connected to the election process were acted on in countries like Palestine and Jordan, insufficient progress was made on the key recommendations on the freedom of association, expression and assembly, a free press and media, the rule of law and an independent judiciary and the fight against corruption, in most of the Middle Eastern countries included in the ENP.

Despite that, the important thing is that the European Union has made important progress by laying out a plan of action for promoting democratic reform in the Middle East. Although for some Middle Eastern countries the process of the EU's democracy promotion has registered less success, in many others the European Union has had a positive influence.

Finally, regarding the recent violent implosion of Syria and the recent war between Israel and Gaza, the European Union has repeatedly condemned the ongoing human rights violations, decided several rounds of restrictive measures against the Syrian regime and provided humanitarian aid to the refugees, meaning that the European Union is still strongly connected to the Middle East. Although it is obvious that neither the EU nor the international community can maintain peace and security in the region, the European Union at least should be prepared to take concrete measures for a secure environment in the Middle East.

## 2.1 The EU and the Middle East Peace Process

The Middle East Peace Process concerns the resolution of the Palestinian-Israeli conflict, this being a strategic priority for the European Union. The EU's objective is a two-state solution with an independent, democratic, viable Palestinian state living side-by-side with Israel and its other neighbours. However, the European Union is constrained by the fact that the Union is not a unified actor. Achieving a common policy on any issue requires the harmonization of twenty seven different positions.

The role played by the European Union in the Middle East Peace Process has been most visible by providing foreign aid to the Palestinian institution-building and training to the security sector reform. The European proposals for the Middle East Peace seek to reconcile the national aspirations of the Israelis and Palestinians through territorial compromise. The formula for conflict resolution embodied in the EU's official pronouncements would satisfy some, but not all Israelis and Palestinians for at least two reasons. Firstly, on the Palestinian side, acceptance of a mini state in the West Bank without the removal of at least some of the Jewish settlements would be political suicide and would not make for a 'viable' state. Secondly, the religious nationalists in the forefront of those Israelis committed to remaining in Jewish settlements in the West Bank will resist evacuation to make way for a Palestinian state. Furthermore, in terms of clearing out key settlements from the West Bank, this solution may portend increased conflict as opposed to peace.

With respect to the Palestinians, the European Union is a strong supporter of its self-determination, financing the creation of a Palestinian state. Even though European aid has positive effects in the area, this is still insufficient to overcome substantial impediments to the realization of a viable Palestinian state. PEGASE is the main instrument to channel European and international assistance as a contribution to the building of the Palestinian State. PEGASE supports a wide range of activities among which governance (rule of law, security), social development, economic and private sector development and public infrastructure development. For instance, during 2004-2010, Palestine has received through PEGASE 2.923 billion EUR, this amount being mainly directed at direct and indirect financial support to the Palestinian Authority, as well as to UNRWA (United Nations Relief and Work Agency for Palestine Refugees in the Near East), humanitarian and food aid.

Meanwhile, the European Union uses three ways to influence Israel in the conflict with Palestinian. On the one hand, the European Union uses political dialogue, the EU's most frequently used means of influence. However, in time, the political dialogue has been rather ineffective in swaying Israeli policies in the conflict. On the other hand, Israel and the European Union can cooperate through the ENP, which allows the EU to influence Israel through the use of positive ex ante conditionality. Despite that, the European Union has proved reluctance in engaging in such conditionality. Also, the European Union can influence Israel through

European and international law. According to this, the European Union could withdraw benefits that have been granted to Israel in the context of bilateral agreements, in the event of a material breach thereof. Nevertheless, the EU has promoted cooperation with Israel and has never taken into consideration the partial or total suspension of the Association Agreement despite the grave human rights and international law violations perpetrated by Israel.

Moreover, the European Union also participates in the peace process through the Quartet that also includes the United States, Russia and the United Nations. The stated aim of the Quartet is to support the establishment of two states, Israel and Palestine, existing side by side within secure and recognized borders. Over the years, the European Union and the United States adopted a more proactive role than Russia and the UN. The inclusion of the EU within the Quartet was an acknowledgement of the growing political role of the EU in the Middle East Peace Process and the legitimacy of the EU's involvement as a major contributor to funding and institution building (Musladin, 2012, p. 61).

On the whole, it is obvious that the European Union alone cannot establish peace between Israel and the Palestinians. Without doubt, the European Union should work alongside third parties to adopt a comprehensive strategy based on international law and human rights.

## CONCLUSIONS

The European Union has developed a very interesting relation with the Middle East. On the one hand, the European Union is a major trade partner for the Middle Eastern countries, importing oil from the area and exporting a variety of types of industrial goods in this region.

On the other hand, the European Union has always been interested in the political and social environment from the Middle East. The EU's foreign policy in the Middle East has been directed especially towards democracy promotion. But the EU's democracy promotion efforts in the Middle East have been remarkably inconsistent, ranging from committed institutionalized engagement with the Southern Mediterranean to the complete neglect of the Gulf countries. As a result, the European Union has failed to adequately promote democracy in the Gulf region. Therefore, to strengthen its influence in the Middle East, the European Union should firstly define a properly approach in expanding its interaction with the Gulf countries beyond strategic and economic aspects and support popular demand for more democracy promotion.

At the same time, the lack of meaningful progress on the Israeli-Palestinian conflict through the two-state solution, which has been a primary goal of the European Union, has been a huge challenge to the credibility of the EU's international policy. Although the European Union is the largest donor of the

Palestinians, it has only proven to be indirectly effective in the Middle East peace negotiations.

Even though the European Union has funded different kind of programs related to the promotion of democracy in the Middle East, it has not gained significant success yet, one of the reasons being that the EU has generally favored conducting most of its democratic reform activities on a government to government basis.

In conclusion, the role the European Union plays in the Middle East is mainly economic. In fact, the European Union has faced problems in making the leap from gradual changes in the economic process to the tangible results of political reform in the Middle East. However, if the European Union considers alternatives to its model of democracy, taking into consideration and understanding the specific of Middle Eastern societies, it could help these countries even more and have real success in its foreign policy in the area.

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## **Session II: The EU "transformative power" in the neighbourhood**

# THE EUROPEAN SOFT-POWER DIMENSION IN THE EASTERN NEIGHBOURHOOD

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**Abstract:** *In a world where hard-power has become increasingly counterproductive (witness the recent Arab Spring), soft-power has gained much importance and is now regarded as an important and comprehensive indicator of national power. The EU is being perceived in the world as an important and influential international actor, but with very different connotations. The aim of this study is to explore how the EU promotes its model of soft-power towards Eastern Neighbourhood and if the EU's power of attraction has applied or continues to apply to its neighbours to the East. Firstly, the article investigates the soft-power conceptual framework. Secondly, it focuses upon the EU's contribution to good governance, democracy, economic prosperity and security for a successful cooperation in the Eastern Neighbourhood, through the Eastern Partnership. Moreover, there is an emphasis on competition between the EU and Russia regarding the promotion of soft-power in Eastern Europe. The third part presents the evolution of the EU-EaP states relationship and the Eastern responds and perceptions of the key areas on the EaP policy: the EU's promotion of liberty, democracy and human rights, the EU's role in trade relations and the EU's policy in the field of peace and security. Finally, the fourth part presents the conclusions, where the results and tendencies of the EaP policy are estimated. The research has shown that the EU's attention on and involvement in the Eastern Neighbourhood has grown and that the EU had the ability to influence the developments in the region and consequently had significant soft-power vis-à-vis those countries.*

**Keywords:** soft-power, European Neighbourhood Policy (ENP), Eastern Partnership (EaP), democracy promotion, visa liberalization

## INTRODUCTION

The purpose of this paper is to analyze the orientations and challenges of the European Union soft-power in its Eastern Neighbourhood. Therefore, the Eastern dimension of the European Neighbourhood Policy is used as a case study to conceptualize and define further the characteristics of the EU as a soft-power

actor. After all, the paper is designed to show that, if the EU cannot successfully utilize the soft part of its power so close to home, there is little hope for a successful projection of this kind of force anywhere else.

The first section will categorize and theorize various aspects of the soft-power concept in international relations. This is followed by a second part which will analyze the capabilities associated with this concept to evaluate the EU's ability to have an impact not only on the world stage, but primarily on its Eastern Neighbourhood. Consequently, the study will focus on the refashioned European strategy towards its Eastern neighbours, a strategy aimed at promoting sustainable stability and economic development, deep democracy, high standards in human rights, gender equality, social advancement and intercultural dialogue.

The third section is a continuation of the second one and will investigate, through a comparative analysis, how effective the EU has been in developing the relations with its Eastern border by other means than military power. Did the EU's policy towards its Eastern neighbours succeed? To what extent could the objective of adopting the EU standards by its Eastern neighbours have been achieved?

Finally, the paper concludes by summarizing the findings of a comprehensive evaluation about the status quo of regional soft-power of the ENP Eastern dimension.

Eastern Europe is one region of the world where the EU's values and interests rarely collide. For that reason, it is in the EU's interest to transform the region into a zone of prosperity and democracy because it will provide the Union member states with more opportunities to trade, prosper and reduce the chance of conflict. Consequently, the best way of securing its interests lies in exporting its values like democracy and a market economy eastwards. Overall, enlargement and other sub-regional experiences have offered innovative policy ideas and policy tools so that the EU was able to propose a new vision to its neighbours.

## 1. SOFT-POWER THEORETICAL APPROACHES

Robert Keohane and Joseph Nye Jr., current exponents of neoliberal institutionalism, have nuanced contemporary approaches of power in international relations. Therefore, they have introduced *soft-power* which is a new concept of power, in addition to the traditional one, as defined by the *hard-power*. In his book "*Of Paradise and Power*", Robert Kagan (2005, p.33) argues that the "*Americans are from Mars and Europeans from Venus*" and moreover that "*the Kantian paradise come true, but it still remains in a hostile Hobbesian environment*".

Soft-power is an academic concept that has been used in the last years all over the world. Introduced in his 1990 book "*Bound to Lead*", according to Joseph Nye, soft-power is a descriptive, rather than a normative, concept and

though this concept is recent, the behavior it denotes is as old as human history. Fully defined in his book *“The Future of Power”*, soft-power is the ability to affect others through the co-optive means of framing the agenda, persuading and eliciting positive attraction in order to obtain preferred outcomes and consequently, the types of resources associated with it include intangible factors such as institutions, ideas, values, culture and the perceived legitimacy of policies (Nye, 2012, p.37). Besides that, Nye realized that the resources often associated with hard-power behavior can also produce soft-power behavior depending on the context and how they are used. For example, the EU successful economic performance can produce both the hard-power of sanctions and restricted market access and the soft-power of attraction and emulation of success. Soft-power relies on positive attraction (in the sense of “alluring”), on framing of an agenda-setting and on persuasion which is the use of argument to influence the beliefs and actions of others without the threat of force or promise of payment; much of it is indirect, because it is mediated through mass audiences rather than elites. Also, the term *diplomatic persuasion* is having in place certain organizations, programs or norms that encourage the opposing party to come to terms. In the language of “sticks and carrots”(Nye, 2009) hard-power is mainly “a stick”, whereas economic and diplomatic persuasion is “a mix of both”.

Nye has found that some analysts have misinterpreted soft power as a synonym for culture and then have minimized its importance. For example, the historian Niall Ferguson (2003) describes soft-power as “*nontraditional forces such as cultural and commercial goods*” and then dismisses it on the grounds that “*it’s, well, soft*”.

In fact, incorporating soft-power into a government strategy is more difficult than may first appear because success in terms of outcomes is more in control of the target, the results often take a long time and the instruments of soft-power are not fully under the control of governments. Although governments control policy, culture and values are embedded in civil societies. Thus, soft-power “*is often hard to use, easy to lose, and costly to reestablish*” (Nye, 2012, p.102).

In agreement with Nye (2009), Kroenig, McAdam and Weber (2010, p.413), define a state effort to employ soft-power as a coordinated government attempt to convince other actors to do what they otherwise would not do by using instruments that do not directly affect the others’ material incentive structure. In other words, states exercise soft-power when they use nonmaterial means to achieve specific foreign policy objectives.

Alongside Nye’s idea, there are a large variety of basic resources that can be converted into soft-power by clever conversion strategies. Basic resources include culture, values, legitimate policies, a positive domestic model, a successful economy and a competent military. For instance, culture can be an important power resource because it is the pattern of social behaviors by which

groups transmit knowledge and values and it exists at multiple levels. Sometimes these resources are specially shaped for soft-power purposes. Such shaped resources include national intelligence services, information agencies, diplomacy, public diplomacy, exchange programs, assistance programs or training programs. Shaped resources provide a wide variety of policy tools, but whether they produce positive or negative responses in the targets (and thus preferred outcomes) depends upon the context, the target and the qualities of the power-conversion strategies.

European leaders describe the desire of other countries to accede to the EU as a sign of Europe's soft-power (Wolf, 2005), but the dilemma is how much changes are the result of the economic inducement of market access, and how much the effect of attraction to Europe's successful economic and political system? In fact, the situation is one of mixed reasons.

## **2. THE EUROPEAN WAY OF SOFT-POWER: ATTRACTION AND PERSUASION**

The expression of soft-power, first defined by Joseph Nye within a debate on the foreign policy of the United States, is often used in the speeches on the EU foreign policy and especially those on the European Neighbourhood Policy (ENP). For the EU officials, the ENP is about exerting soft-power over the EU's direct neighbourhood in using the tools of enlargement as well as the lessons learnt from crisis management abroad.

From this point of view, Delcour and Tulmets (2009, p.509) argue that, in the absence of military hard-power, European soft-power is backed up by negative conditionality and economic sanctions, which at some points represent the EU's hard-power. They also explain that in practice, the EU is hesitant to use this negative approach and prefers to use positive conditionality-like reforms which are supported with assistance, and to play with its power of attraction and of persuasion. The main way for the EU to gain influence and to secure its environment is to export its own internal norms and policies abroad. Thus, specific policy ideas, concepts and methods have been shaped to export internal policies abroad and to implement the ENP on the basis of the experience of enlargement to build a policy which should ideally be able to exert a soft-power on its neighbourhood.

Practically, the accession conditionality (first developed for the candidate countries from Eastern and Central Europe) may be found in the policy discourse of the ENP. Therefore, neighbouring countries have to respect the „*commitment to shared values, that is respect for human rights, including minority rights, the rule of law, good governance, the promotion of good neighbourly relations, and the principles of a market economy and sustainable development as well as to certain key foreign policy goals*” (European Commission, 2004, p.3)

There is a broad consensus among scholars about the EU, which is described as a non-state, value driven, normative actor and as a civilian power (Schmidt, 2012). Moreover, Schmidt's work argues that the concept of a *civilian power* implies that soft power dominates over hard power in the case of the EU. From this perspective the EU foreign policy is not driven by the political ambitions to be a military power, but aims to contribute to the civilization of international relations within the United Nations system and values (Maull, 2006).

Overall, the discourse on soft-power represents a specific approach developed by the EU to co-opt rather than coerce the countries in its neighbourhood and is based on various past experiences of doing the EU foreign policy. This type of power refers to a combination of policy discourses on the *"attractive power of European values and norms and of a philosophy based on partnership, differentiation and participation, complemented by civilian means mobilized for crisis management"* (Delcour, Tulmets, 2009, p.512).

### **2.1. Integration between the UE and its Eastern Neighbourhood**

Eastern Europe is the poorest region of Europe, where none of the countries meet the EU standards regarding political systems to various extents. The past decade has shown that achievements in the area of civil freedoms and the rule of law in those countries may even regress in a few years. Paradoxically, the countries which have achieved the greatest success in this area are Azerbaijan and Belarus, the two countries which are most distant from the EU in terms of their political system. But Belarus's impressive growth is partly an effect of its being sponsored by Russia in exchange for political concessions. Belarusian goods have been traded on the Russian market on preferential conditions, which has also greatly contributed to the development of the Belarusian economy. Thus, according to Pełczyńska (2011, p.18) the impressive economic growth is to a significant extent artificial and is likely to slow down as the politically motivated support from Russia is reduced.

At the same time, this is a strongly diversified region with significant disparities in politics (model of governance and the values inherent in it), the economy (the gap in prosperity levels) and identity (the status granted to the EU in the minds of the elite and the public). But specifically, the level of stability is the most important factor on which possibilities of development in all of the mentioned areas depend.

The EU offers its neighbours a privileged relationship, building upon a mutual commitment to common fundamental values like democracy and human rights, rule of law, good governance, market economy principles and sustainable development and the level of ambition of this relationship will depend on the extent to which these values are shared.

### i. The Eastern Partnership (EaP)

Launched in May 2009 at the Prague Summit, the EaP completes the EU's foreign policy towards Eastern Europe and Southern Caucasus countries as a specific Eastern dimension of the European Neighbourhood Policy (ENP) and aims to deepen and strengthen relations between the European Union and six Eastern neighbours: Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. The commitment was reshaped at the Warsaw Summit in 2011 and several new initiatives have been launched to support and reinforce the EaP in the 2012 ENP Package which focus on increasing democracy and applying differentiation and conditionality principles (Sadowski, 2012). The *more for more principle* includes financial support (more attractive and clearly defined benefits) and enhanced access to EU programmes and agendas in exchange for progress in the European integration and the implementation of reforms. It also contains an effective system of sanctions. At the same time, the EU has established new instruments for closer cooperation with the civil society: the Civil Society Facility (CSF) and the European Endowment for Democracy (EED).

The EaP objectives are achieved through (Eastern Partnership Glossary, 2011):

- a bilateral track - aims to deepen the bilateral relations between the EU and each Eastern Partner (bilateral agreements such as the Association Agreement, the Deep and Comprehensive Free Trade Area, the bilateral dialogue on visa liberalization, closer bilateral cooperation in economy, energy, environment, transport, research and technical assistance).

- a multilateral track - represents a framework in which the EU and the Eastern partners tackle common challenges as a group (opposed to the bilateral track) and advances the EaP's objectives through flag-ship initiatives and four thematic platforms:

- ✓ democracy, good governance and stability - promotes democratic and economic reform focusing on the development of stable democratic institutions (electoral standards, media regulation and anticorruption efforts); stronger involvement of civil society in this process; security, stability, sovereignty and territorial integrity of the partner countries.

- ✓ economic integration and convergence with the EU policies

- ✓ energy security

- ✓ people-to-people contacts - increasing the contacts between the EU and partner countries' citizens, with an emphasis on young people, including through the development of the information society and the media; cultural cooperation, education and research. People contacts are seen as a factor that promotes change in the partner countries.

By launching the EaP, Brussels intended to determine the final Eastern borders of the European Community in a soft way.

## **2.2. The EU vs. Russia: competing soft-powers in Eastern Europe**

In attempting to exert its soft-power over a *ring of friends* (European Commission, 2004), the EU is faced in the East with a challenge that it does not meet in the South: a country which is at the same time an exceptional neighbour, a regional power and a global player, that is Russia, which has been trying to establish a sphere of influence in its “near abroad” since the break-up of the Soviet Union.

Referring to this, some authors argue that the EU has so far failed to develop a regional vision in its Eastern neighbourhood as far as it has still not found an appropriate articulation between the ENP, on the one hand, and its partnership with Russia, on the other hand (Delcour, Tulmets, 2009, p.513).

In addition, other works show that nothing undermines the EU’s soft-power in the neighbourhood more than the restrictive nature of its visa policies. Contrarily, Russia’s most important soft-power request is the right it grants neighbourhood citizens to travel in Russia without visas and to work. Moreover, Popescu and Wilson (2009, p.27) state that, on the one hand, the EU is unsure about how to apply its political values in the neighbourhood, wanting both to promote democracy and to maintain a relationship with all its neighbours, including authoritarian regimes and, on the other hand, Russia builds alliances with all neighbourhood states whenever it sees value in doing so while also, where necessary, deploying its black arts of political manipulation: interfering in regional politics in some cases and exporting its model to corrupt regimes in others. Russia offers neighbourhood states concrete benefits, such as open labour markets, low-priced energy and easy membership of multilateral organizations. On the other hand, when negotiating with the EU, governments in the neighbourhood find themselves lost in a maze of confusing bureaucratic terms like European Neighbourhood Policy, Eastern Partnership, European Neighbourhood and Partnership Instrument, governance facility, autonomous trade preferences, neighbourhood investment fund and so on. To paraphrase Lynch (2005), an expert on the region, Russia makes you an offer you can’t refuse, while the EU makes you an offer you can’t understand.

Although Russia’s strategy is to counter the EU soft-power in the neighbourhood by presenting itself as an alternative model, the EU remains the most powerful political model in the Eastern neighbourhood. Moreover, Europeans have failed to cultivate their soft-power while the Russians have worked successfully to consolidate theirs. Consequently, even if the EU may have a more attractive governance model than Russia, good models do not always win.

### 3. ACHIEVEMENTS AND LIMITS OF EUROPEAN SOFT-POWER AT EASTERN BORDERS

This section will focus on answering if governmental efforts to employ soft-power are most likely successful than unsuccessful and consequently, if the EU can be named a *model of soft-power* in its Eastern Neighbourhood.

In agreement with the Commissioner for enlargement and the ENP (Projects in Action, 2013, p.5), the EU relations with its Neighbours are at a turning point because after years of relative stagnation, the general trend points towards a more accountable form of governance and increased respect for human rights and fundamental freedoms. Moreover, structural reform where pursued, has helped to reduce poverty and attract foreign investment, while important social challenges remain. At the same time, continued approximation to EU norms and standards has helped to contribute to strengthened trade links, despite the unfavourable economic climate. Increasingly intense sector co-operation with the EU is helping to address transport and energy bottlenecks and to tackle environmental and climate challenges.

Also, Vigenin (2012, p.14) argue that till now a lot of results have been achieved by the EaP and more concrete results will come soon, but the EU should act as an example for those countries and should never make compromises with its principles otherwise it will look weak in their eyes. By contrast, Saryusz-Wolski (2012, p.27) is more critical and highlights that the EU does not sufficiently use its potential as a *transformative soft-power*, because of the differences in the Member States' interests which are an obstacle to the establishment of a more coherent policy.

Frequently there is emphasis on the importance of rising cooperation on youth, student, researcher and professor exchanges and the development of scholarship programmes which will enable the Eastern countries citizens to learn about and to share European values (Costea, 2012, p.54). The EU should extend some programmes and financing (especially in the fields of education, research and culture) to those Eastern countries that prove they share European and democratic aspirations, through real reform policies. Especially the Jean Monnet Programme is a success story and an example of good practice.

In its Country Progress Reports, the European Commission (2013) identified that the poor state of democracy is the main challenge facing the countries of the Eastern Neighbourhood. Despite progress in integration and the development of bi and multilateral cooperation, the EU has identified a deteriorating aspect regarding the democratic standards, human rights and the rule of law. According to the European Foreign Policy Scorecard (2013), in 2012 the EU got mixed results in the Eastern Partnership countries, because its results were good in Moldova and to some extent in Georgia, it had a coherent approach

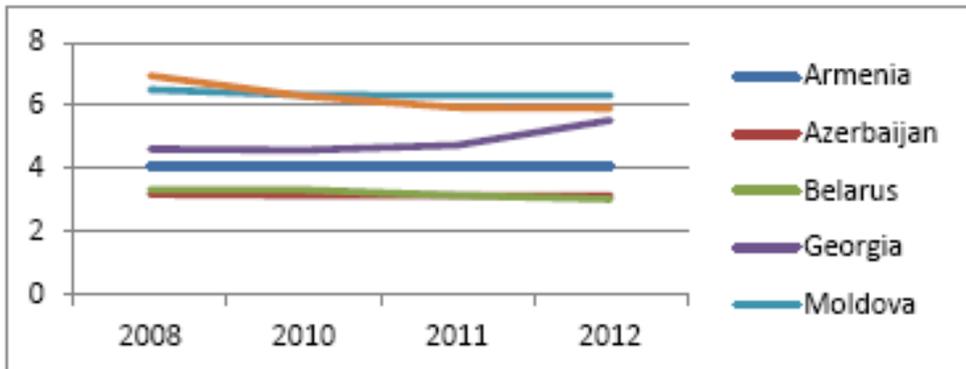
towards Belarus but, oppositely, Europeans struggled to pursue a united approach to Azerbaijan and Ukraine.

**Table 1. European Integration Index 2012 by countries** (indicator: 0 worst-1 best)

	Moldova	Georgia	Ukraine	Armenia	Azerbaijan	Belarus
Political dialogue	0.77	0.56	0.94	0.63	0.55	0.28
Trade and economic integration	0.66	0.49	0.68	0.49	0.52	0.37
Sectoral cooperation	0.54	0.46	0.7	0.19	0.35	0.36
People-to-people	0.78	0.45	0.48	0.43	0.24	0.3
Assistance	0.71	0.57	0.42	0.34	0.13	0.25
Deep and sustainable democracy	0.75	0.59	0.61	0.59	0.34	0.25
Market economy and DCFTA	0.59	0.67	0.53	0.6	0.44	0.36
Management of EU assistance	0.79	0.64	0.5	0.36	0.57	0.64
Participation of civil society	0.9	0.9	0.7	0.4	0.4	0.5

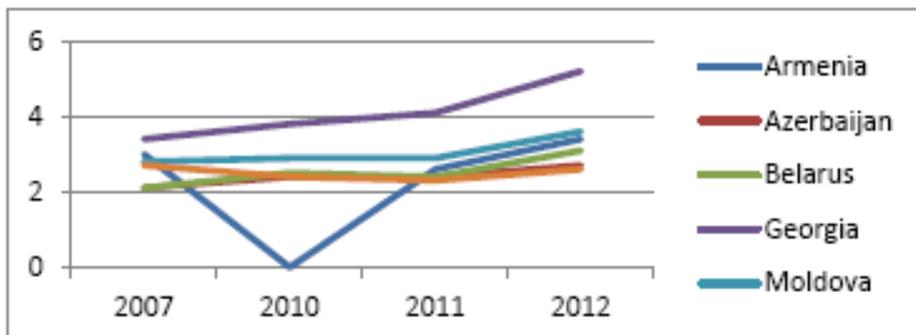
Source: *European Integration Index for Eastern Partnership Countries* (2012), <http://www.eap-index.eu/index2>

The EU hopes that trade liberalization with its neighbours will increase levels of interdependence, help spread prosperity and modernize the economies of its neighbours, and that it will gradually contribute to the consolidation of the rule of law and democracy in the region. In 2012, the EU made significant progress towards achieving trade liberalization with three of its Eastern neighbours after it launched negotiations on DCFTA with Moldova, Georgia and Armenia. The EU also signed a DCFTA agreement with Ukraine (the EU's most important economic partner in the Eastern Neighbourhood), but it is not in force yet due to the EU member states' concerns over the state of democracy and human rights in Ukraine, especially in the light of the imprisonment of former prime-minister Yulia Tymoshenko. However, there was no progress on initiating similar talks with Belarus (which is currently subject to EU sanctions like visa bans and asset freezes) or Azerbaijan, which expressed no interest in the EU's free-trade offer.

**Figure 1. Democracy Index Trend 2008-2012** (indicator: 1 worst-10 best)

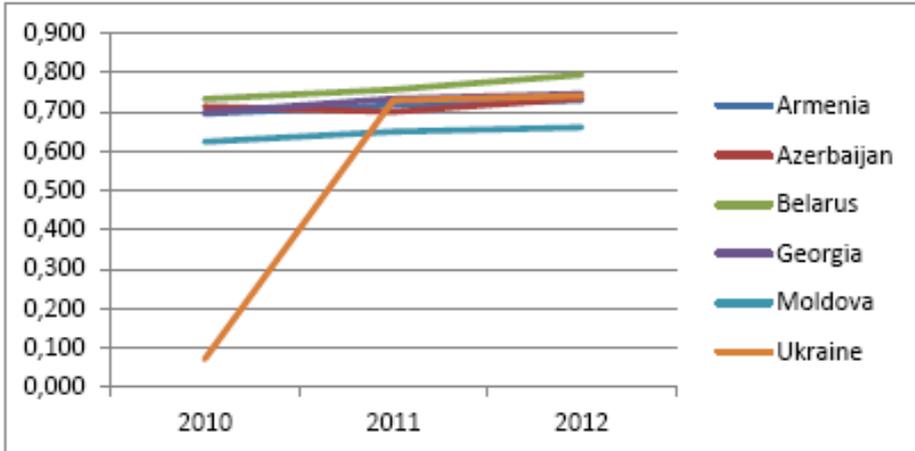
Source: Data processing, *Democracy Index Report*, [https://www.eiu.com/public/topical\\_report.aspx?campaignid=DemocracyIndex12](https://www.eiu.com/public/topical_report.aspx?campaignid=DemocracyIndex12)

Considering the rule of law, democracy and human rights, while none of the region's four parliamentary elections in 2012 fully met the OSCE standards, the Armenian and Georgian elections were relatively competitive and peaceful whereas, the elections in Belarus and Ukraine have been a step back for democracy. Meanwhile, Georgia went through the first peaceful transition of power in its modern history, despite the fact that the highly polarized election campaign led many people to worry about a possible instability. Also, it seems to be continuing to move towards democracy. The situation in Azerbaijan and Belarus remained unchanged because the EU was unable to push the governments (both serious human-rights violators) towards political liberalization.

**Figure 2. Corruption Perception Index Trend 2007-2012** (indicator: 1 worst-10best)

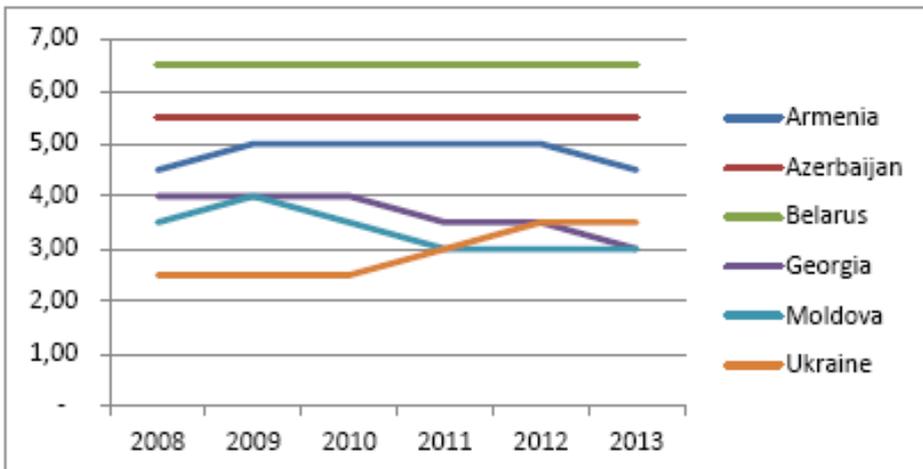
Source: Data processing, *Corruption Perception Index*, <http://www.transparency.org/>

**Figure 3. Human Development Index Trend 2010-2012** (indicator: 0.000 worst-1best)



Source: Data processing, *Human Development Report*, <http://hdr.undp.org>

**Figure 4. Freedom Trend 2008-2012** (indicator: 1worst - 10best)



Source: Data processing, *Freedom in the World*, <http://www.freedomhouse.org/report/>

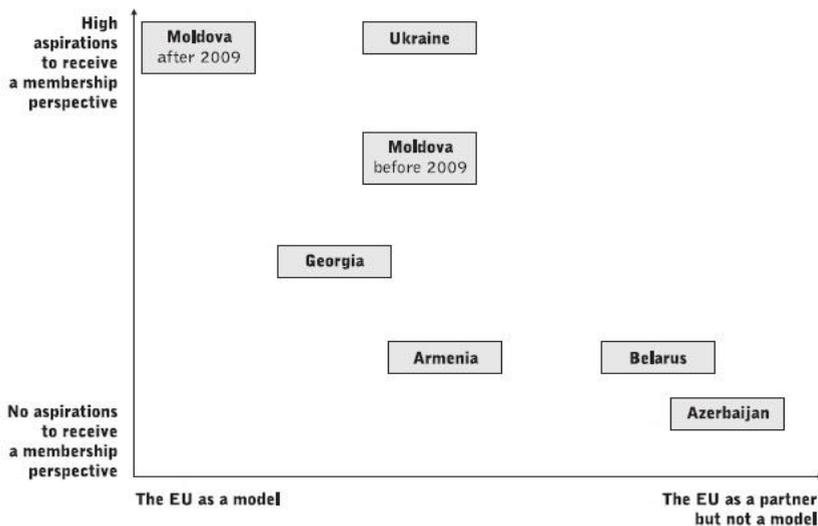
The EU made slow but firm progress towards visa liberalization with Moldova, Ukraine, and Georgia, and towards visa facilitation with Armenia and Azerbaijan. Moldova made significant progress in meeting the conditions for visa liberalization and was moved to the second phase. On the other hand, Ukraine

made less progress. The EU also launched a visa liberalization dialogue with Georgia aiming at abolishing visas at some point in the future. The EU also offered Azerbaijan and Armenia visa facilitation agreements that would allow specific categories of citizens from these countries to obtain Schengen visas under a more relaxed regime (whereas Ukraine, Moldova and Georgia have benefited from such agreements for several years already).

#### 4. THE EU – PARTNER OR DEVELOPMENT MODEL?

The EU is being perceived in Eastern Europe as an important actor, but with very different connotations: some neighbours have membership ambitions and consequently see the EU as a model, for others the relations with the EU are an instrument to balance regional relations and a few of them perceive the EU as determined to expand its influence beyond its borders.

**Figure 5. The perception of the European Union in the EaP countries**



Source: Pelczyńska, K. (2011), *Integration or imitation? EU policy towards its Eastern Neighbours*, OSW, No. 36, Centre for Eastern Studies, p. 23.

Therefore, Ukraine sees the EU as one of the possible development models, which should be copied selectively, depending on the pragmatic interests of the political elite and Armenia perceives the EU as a source of partial modernization. In turn, for the leaders of Azerbaijan and Belarus, the EU is mainly a trade partner and a political actor which offers an economic and political counterbalance to Russia. Only Moldova has taken a more pro-EU approach since the 2009 election

and become the best performer among the EaP countries, whereas Georgia has made less but firm progress.

## CONCLUSIONS

One of the major priorities of the EU through not only the ENP, but specifically the EaP was to create *a ring of friends* outside its borders, based mainly on respect for the European values. The EU's goal was to help the countries in the EaP region transform into democratic and pluralist societies and also to organize a cooperation, security, stability and prosperity area. In practice, the Union mobilizes increasingly civilian resources to implement its soft-power, but the results have not been entirely the expected ones.

Summing up, it can be said that till now significant progress was made with the implementation of the EaP, both on the bilateral and the multilateral track. Despite this achievement, in some partner countries limited progress in democratic reforms, respect for human rights and the rule of law continued to pose a challenge for achieving the objective of political association and economic integration with the EU.

Overall, building and consolidating sustainable democracies remains most important challenge for the EU. Whereas substantial progress being made, there is still a long road to go in some countries because freedom of expression, association and assembly needs to be fully guaranteed in law and in practice and a strong culture of respect for human rights must be established across the board, in particular the protection against all forms of discrimination in politics as well as daily life.

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# THE ROLE OF NATIONAL PARLIAMENT IN MOLDOVA'S EUROPEAN INTEGRATION: TOWARDS GREATER DEMOCRATIZATION

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**Abstract:** *The paper first outlines main findings and trends in the research on the role of national parliaments in European integration. The great bulk of literature focuses on the EU scrutiny of legislatures and denotes a weakening of national parliaments vis-à-vis their governments. However, the role of legislatures of countries aspiring to the EU membership seems to be a rather under-researched field. This paper aims at exploring the state of the art of the Moldovan Parliament's engagement into the European integration process, focusing on three central functions of the national parliaments: 1) the legislative function and propelling the reforms, 2) the parliamentary scrutiny of reform implementation by their governments; and 3) parliamentary diplomatic efforts in the European integration debate. The relevance of this paper lies not only in its contribution to the existing European integration research. It also touches upon the question of the democratic development of the main democratic institution in the post-Soviet country embracing European values and offers new issues to consider pertaining to how the national parliament of a country seeking future EU membership can play a greater and effective role through its deeper functional and institutional democratization in European integration based on Moldova's case.*

**Keywords:** European integration, national parliaments, scrutiny, democratization, parliamentary diplomacy

## INTRODUCTION

Does the national parliament of a country seeking future EU membership play or need to play a greater role in European integration? Does it need to have a meaningful scrutiny of the government on its EU agenda? How can the national parliament of an aspiring country contribute to more effective negotiations with the EU? These questions and more are raised by this paper based on Moldova's case. The analysis will also take stock of the current state-of-the-art of the Moldovan Parliament's engagement into the European integration process. It will focus on three central functions of the national parliaments: 1) the legislative function and propelling the reforms, 2) the parliamentary scrutiny of reform implementation by their governments; and 3) parliamentary diplomatic efforts in the European integration debate, and how all the above can contribute to a greater democratization of Moldova.

European integration as a strategic objective embraced by the Republic of Moldova is a comprehensive and complex process which requires all the State institutions to be fully engaged in the concerted efforts to implement democratic reforms necessary to ensure that the Copenhagen criteria are duly met, including the harmonization of domestic legislation with the EU standards, strengthened national consensus, as well as by involving the civil society, enhancing diplomatic and negotiation efforts etc. In this context, the parliament's contribution to achieving this objective of primary importance is hard to underestimate, especially as concerns developing the political and normative framework dealing with the harmonization of domestic legislation to the EU rules. The legislature might fundamentally increase its transparency and participation in the European integration process by providing an excellent platform for informed political debate and informative discussions, therefore raising the public awareness.

However, at first sight, it seems that the parliaments are not central actors in the process of European integration in the current candidate or aspiring countries. The European integration literature treats national parliaments, almost without exception, as reactive institutions having fairly modest influence over policy initiatives coming from the executive. Indeed, policy making is a realm that, regardless of specific constitutional arrangements, has increasingly become the preserve of the executive, due to the growing complexity of government, the concomitant growth of the bureaucracy and globalization. (Norton, 1990, p.3) European integration has been seen as contributing to this process as a result of substantial legislative functions delegation to the EU structures (Judge, 1995, p.82) in the case of the EU member states, while the candidate and aspirant countries delegate them to their national governments in negotiations with the EU, and the limited capacities of national parliaments to hold executives accountable over their role in the EU policy formation or about the ongoing negotiation on the cooperation instruments that would facilitate progress on the European integration path of the aspirant countries. It is equally true for the post-Soviet countries such as Moldova or Ukraine aspiring to the EU membership with their weakly institutionalized parliaments.

## **1. CURRENT DEBATE ON THE ROLE OF NATIONAL PARLIAMENTS IN EUROPEAN INTEGRATION**

In the EU member states there are long-standing and ongoing debates on both political and research agenda focusing on addressing the democratic deficit and enhancing the role of national parliaments in European integration and EU affairs, including the European Parliament. The debates lead to the introduction of 'Provisions on Democratic Principles' in the Lisbon Treaty (Art.12 TEU) making therefore a significant attempt to enlarge the EP powers and improve the national parliaments' engagement in the EU affairs. Nevertheless, politicians and researchers

believe it to be achieving only modest effects and no obligation for national parliaments could be drawn from the Treaty (Spreitzer 2011, p.6). The respective protocols on the role of national parliaments and the application of the subsidiarity and proportionality principles opened opportunities for the involvement of those legislatures that wish to contribute.

The recent improvement notwithstanding, the latest developments in the EU and the debt crisis have given way to growing Euro-skepticism and seem to seriously affect the participation and influence of national parliaments in the EU decision-making. One of the major concerns of politicians as well as political scientists has been the double democratic deficit and hollowing out of the nation state (Ladrech, 2010, 73ff). It is also known that parliaments' effectiveness is central for a democracy (Raunio and Hix, p.149), having in mind their role in representing voters' interests, legislation development, consideration and enactment, parliamentary oversight of government and legislation enforcement.

In most European countries, national parliaments are key political institutions in representative democracies. And their active engagement in policy-making has a paramount importance to keep the government accountable in the chain of delegation of powers characteristic to a parliamentary representative democracy (Strøm, 2000, p.268). Most scholars argue that national parliaments have suffered because of the processes of European integration. The liberal inter-governmentalist approach associated with Moravcsik claim that European integration largely consolidates national governments because they, and not ordinary parliamentarians or people outside the Executive, take active part in decision-making in the various EU institutions.

The most recent scientific research correctly points out to the need for shifting emphasis in the analysis from the description of scrutiny competencies towards consideration of the actual implementation of such powers from the qualitative perspective and theoretical approach to more direct involvement of national parliaments in the EU decision-making. This does not mean that parliamentary scrutiny reforms should be totally neglected, but rather that the analysis must be complemented with empirical data.

Most of the existing literature remains so far rather descriptive and is at a stage of quite general reflections; however it provides a solid platform for a greater interest towards the addressed issues, which is largely proved in recent researches in this area that explore the empirical data about the impact of European integration on national parliaments.

In a broad sense, since the European integration impact on the internal processes of the EU member states has been studied extensively, the contribution of candidate or aspiring countries' legislatures to shaping the pattern and pace of European integration is however apparently underresearched. There were few attempts in early and mid 2010s to search the role and involvement of national parliaments in the European integration and Europeanization process, particularly in

the Central and Eastern European (CEE) countries with the participation of scholars from such countries (Ágh 2001, Guasti 2010, Ghinea, Dinu, Tănăsache 2010). The experience of new entrants has shown that it was crucial for the eventual full EU integration of ECE countries to involve their parliaments to the European integration process, playing a decisive role in both the pre-accession and accession periods (Ágh, 2001). A parliament able to perform its constitutionally-designated functions is necessary for the aspiring countries to meet the political aspects of the Copenhagen criteria: ‘stability of *institutions guaranteeing* democracy, the rule of law, human rights and respect for and protection of minorities’ (Sweeney, 2005, p.34). National parliaments in the EU ‘new member states’ have undergone profound changes in the pre-accession to the EU and, at the same time, they have played a very active role in order to bring their countries closer to the EU standards (Ágh, 2004, p.69).

Since the European integration process involves the respect for political conditionality as a key instrument to promote democracy, human rights and the rule of law, parliaments of the countries that are striving to obtain the EU membership play a triple role: 1) to show to the EU that represented countries are willing and able to play a full part as member – states; 2) to show to their domestic electorate that they are recognized by the EU as a full-fledged partner to legitimate their policy programme by reference to the EU policies; 3) to raise public awareness, providing public support on the EU integration process and explaining to the electorate the benefits of Europeanization. In this regard, an active position has been chosen by the Moldovan Parliament in fulfilling the abovementioned European integration objectives.

Nevertheless, unlike Western parliaments, which have distinct functional division of labour with other political institutions, parliaments in newly emerged democracies have much broader functions. According to scholars (Ágh 2001, Ostrovskis 2006), there are a number of major functions closely related to the formation of the new democratic system which are also true for the Moldova Parliament as well.

First and foremost, it is the legislative function meant to establish basic rules of the political game and for the new social and political order. However the old fashioned mindset and limited understanding of the democratic governance by the elected representatives may pose a risk in their exercise of legislative function creating quasi-democratic laws and procedures.

The parliamentary scrutiny over governmental actions and policies is important in order to ensure check and balances between the power branches. This function is difficult to properly implement in democracies in transition when the majority party or coalition does not acknowledge the legitimate role of opposition (it is particularly true for countries like Moldova or Ukraine where parliamentarians, the civil society and media openly claim the existence of such attitude).

The socialization function which refers to informal rules, communication and culture required to create a favourable environment for the EU standards to take

roots in new democracies aspiring for the EU membership and can be regarded as very essential for further institutionalization processes. It involves schooling for new political elite and establishing the rules for parliamentarized behaviour where the EU soft power may come into full play.

The legitimization function, or in other words domestic empowerment, is of paramount importance for building up the bridge between the political elites and civil society actors and ordinary citizens through a social and political dialogue, having its transformative influence of the European integration process on domestic affairs.

All the above functions are also significant in the process of European integration, in particular for the implementation of democratic structural and institutional reforms, adopting European values and practices of good governance, given that parliamentary procedures tend to be complex because they ought to regulate such issues as the adoption of legislation, parliamentary scrutiny over the government, control of the state budget execution and taxation, etc. In particular, the national parliaments of the countries aspiring to EU membership often lack deep experience in matters relating to European integration, are much less informed about the operation of other more advanced systems and experiences.

Furthermore, there are many new problems concerning the low performance of the new democratic system, in particular post-soviet countries. In the countries under transition to democracy, such as Moldova, the situation differs because the formation of democratic institutions, particularly the establishment of the parliamentary institution, seems to be the main concern. The main problem is changing the way of understanding and mentality of citizens and politicians as concerns the parliament's role.

## **2. CONSOLIDATION OF MOLDOVAN POLITICAL 'ELITE' VIS-A-VIS EUROPEAN INTEGRATION CHOICE**

Since spring 1999, when the then Moldovan Government included in its work programme a special chapter on European integration, having defined it as the main strategic objective of its foreign policy, Moldova's European integration endeavor underwent a series of institutional and policy developments, including a common Declaration on Political Partnership for 2005-2009 to achieve the objectives of European integration adopted by the Moldovan Parliament on 23 March 2005. All parliamentary political parties of the Republic of Moldova declare themselves in favor of the objective of gradually integrating European values and norms, including EU policies and rules, in the Moldovan society with the final goal of joining the European Union.

Among other things, the directions of the above political partnership comprised:

- 1) Concerted diplomatic, legislative and political efforts, as well as civic initiatives to implement the EU-Moldova Action Plan (EUMAP);

- 2) Harmonising the national legislation with the EC law in the field of free movement of goods, capital, services and labour;
- 3) Joint efforts to achieve Moldova accession to the European Community.

The pro-European choice has become an axiom for the domestic politics of the Republic of Moldova, a vector for the new Moldovan political elite. The Moldovan Parliament perceives the European integration process first as a domestic task of modernizing its management structure. It adopted an active and pragmatic attitude to fully exploit every integration opportunity. The ongoing domestic political, legislative and socio-economic reforms in Moldova are based on the taking over, adaptation to local realities and application of the European legislation quanta and social-economic models to the national systems.

In turn, the EU is developing an increasingly close relationship with Moldova. Based on its geographical location and recent history Moldova is a partner country within the European Neighborhood Policy (ENP). There is a significant openness within the EU towards intensifying and deepening the EU's relationships with Moldova.

The European neighbourhood policy has already had its beneficial effects on Moldova's domestic politics and opens up new perspectives: progressive integration into European structures, access to the internal market of the Union, participation in the EU programmes, the emergence of new opportunities for economic development, getting support for the Transnistrian conflict settlement, providing financial resources for the implementation of cross-border and trans-national programmes, opening cultural, educational, environmental, technical and scientific dimensions for further enhanced cooperation.

In the late 2009, the current Moldovan government and parliament embraced a programme to join the European mainstream claiming European integration as top priority for Moldova's foreign policy, pursuing the ongoing structural reforms in the economic, public administration and judiciary areas, giving consequently due notice to "more for more" merit-based approach of the EU under the strategy paper entitled "A new response to a changing Neighborhood" and dated May 25, 2011. By the end of 2009, Moldova has made progress in the field of democratisation and reforms (there are still problems with regard to the judiciary reform, fighting corruption, ensuring a functional business environment, etc.) EU officials claim that the Republic of Moldova can be considered a success story in the Eastern Partnership because it made very effective use of the instruments the EaP provided.

At present, the EU-Moldova relationship goes beyond partnership and cooperation, aiming to gradual economic integration and a deepening of political cooperation. Moldova has enhanced its participation in the Eastern Partnership, implementing the actions required under the EU-Moldova visa liberalization plan and entered into negotiations on the Deep and Comprehensive Free Trade Area with

the EU, becoming one of the five partner countries that started negotiating the Association Agreements.

The future Association Agreement (AA) is expected to succeed the Partnership and Cooperation Agreement as the legal framework for the EU-Moldova bilateral cooperation (Vehar, Gromovs, 2010, p.19). The Agreement that is presently under negotiation by Moldova and the EU is seen by both parties as providing the most advanced vision of association possible under the Eastern Partnership, including a Deep and Comprehensive Free Trade Area and a comprehensive programme of approximation to the *acquis communautaire*.

Meanwhile, an increasingly growing European integration fatigue can be seen among the Moldovan citizenry, because of the lack of clear perspective for Moldova's EU accession. It is also fuelled by both the crisis faced by the EU countries and the ongoing political crisis inside Moldova where the politicians, while still sticking to the European integration cause, demonstrate not quite European behaviour. Against the background of the recent polls which prove lesser support by Moldovans to the EU integration, the progress toward European integration notwithstanding, the Moldovan political elite needs to make certain efforts in order to establish a more direct and transparent dialogue with people.

### **3. MOLDOVAN PARLIAMENT'S INSTITUTIONAL CAPACITIES FOR EUROPEAN INTEGRATION**

Having in mind the early conclusions made by many scholars claiming that the governments play a much greater role in the European integration process than the parliaments, it seems to be no less true for the Moldovan Parliament as well. The recent reports developed by various experts under the UNDP and EU structural development aid to Moldova, which stated the above pitfall, triggered if not active, but at least rather serious political debate and research on the legislative-executive relations and the role of the Moldovan Parliament in policy making, European integration and ongoing negotiations with the EU.

The core governmental institution responsible for monitoring and coordinating the activities of the central authorities in Moldova's European integration process, including in the negotiations on the association agreement with the EU, is the Ministry of Foreign Affairs and European Integration. At the same time, there are several institutions inside the executive involved in the negotiation of bilateral agreements with the EU (Ministry of Economy, State Chancellery) and, on the other hand, there is fragmented coordination of commitments towards the EU between various governmental institutions through the use of various tools for monitoring the commitments' implementation. Therefore, it is observed that there is an inside competition in the Government as concerns coordinating the European integration process.

From the political point of view, an important role in monitoring the implementation of commitments in its relations with the EU is played by the Governmental Commission for European Integration (GCEI) – main central structure for coordination and information regarding EU matters, discussing negotiations on the Association Agreement, degree of success in achieving commitments in the EU-Moldova relations, ministerial reports on implementation of sectoral strategies etc. The Commission was created in November 2009 and is the successor to the National Commission for European Integration chaired by the Moldovan President (Vehar, Gromovs, 2010 pp.63-64). The Committee now chaired by the Prime Minister does not extend its membership over the parliamentary representatives (at least, for example, Chair of the parliamentary standing Committee on Foreign Policy and European Integration), which means non-representation of the Moldovan Parliament in this structure that claims to be central body coordinating all the issues pertaining to the European integration process. Since the draft Association Agreement is to be finally submitted to the Parliament for debate and ratification, the Moldovan scholars (Suceveanu, 2012, p.70) believe it unclear and rather subversive such state of the art seriously limiting the Moldovan Parliament's capacity to express its concerns or position in the European integration affairs. The legislative is rather informed by the executive and less consulted. The legislative-executive relationship in coordination of the European integration-related issues is not formalized, and the current legal framework can hardly specify the role, the mandate or powers of each institution or a cooperation or consultative mechanism either.

#### **4. LEGISLATIVE AND SCRUTINY CAPACITIES IN MOLDOVA**

The core essence of the process of European integration and Europeanization is the transfer of the *acquis communautaire*, standards, rules, European practices in all spheres, promoting democracy, human rights and the rule of law, by applying various tools and strategies related to the economic reform, policies, the successful transition to a market economy, economic integration, democratization and good governance.

Moldova's European integration depends on the adoption of legislation required for the implementation of its commitments towards the EU and harmonizing Moldova's legislation with the EU law. Therefore, the parliament's most visible function is to legislate; thus, timely approval of quality legal acts and other regulations necessary for the European integration, notably the gradual approximation of Moldova's legislation to the EU law, appears to be the primary role that the Parliament should play in fulfilling the country's aspirations for the European integration. To prove it, Moldova's Legislative Programme for 2005 – 2009 aimed at developing new laws and gradual review of the current legislation (88 pieces of legislation) in view of adjusting the Moldovan legal framework to the EU

Directives. It was an indicative of a commitment and political will to start the procedure of harmonization of national legislation with the *acquis communautaire*. At the same time, the Legislative Programme for 2010-2013 was developed to change over 100 pieces of legislation in order to bring the national legislation in line with the EU law.

The Moldovan parliamentary leadership claims that “the Moldovan Parliament is not in arrears as concerns the legislative dimension in preparation for the signing of the Association Agreement, the Free Trade Agreement and the Visa Liberalization Agreement with the European Union”, meaning that the legislature fulfils its part in Moldova’s commitments to European integration.

This notwithstanding, in Moldova, unlike most EU new member and candidate countries in which the coordination function was concentrated at the highest level of the executive branch of government while the Parliament played a strong monitoring and oversight function, the same institution, currently the Ministry of Justice, and in particular the Center for Legal Approximation, which took over this function from the Ministry of Foreign Affairs and European Integration, is responsible for both coordinating the development of programmes and (annual) plans for the legal approximation and monitoring of the execution of these programmes and plans.

The EU candidate and acceding countries, the same as the new EU member states during their preparation for joining the EU, created parliamentary Committees on European Integration. Committees on European Integration usually become Committees on European Affairs as soon as the country becomes an EU member. It is also true in case of some countries seeking future EU membership. As for example, the Parliament of the Republic of Macedonia has two parliamentary committees that play an active role towards the EU integration: the Committee on European Integration and the Committee on Foreign Policy or the Ukrainian Verkhovna Rada, which has both the Committee on European Integration and the Committee on Foreign Affairs.

In Moldova, the parliamentary body vested with powers in the EU affairs is the Committee on Foreign Policy and European Integration. These powers notwithstanding, the Committee’s mission does not fully pertain to the EU affairs and monitoring Moldova’s European integration process, also dealing with a rather wide range of matters that concerns foreign affairs, international relations etc. Legal commitments of harmonizing national legislation in the context of the association agreement with the EU involve intensive and extensive regulatory and policy changes on how to approach various matters of domestic policies. This means that matters relating to the EU Affairs and European policies *per se* should be viewed differently from those related to foreign policy and international relations.

Since the European integration also means the institutional change, i.e. Europeanisation, which refers to changes in the internal functioning of an institution, the parliament therefore needs to improve its position by exercising a more effective

overall scrutiny over government, in particular related to better access to information. For instance, under the Resolution on European Integration as of October 2004, which defined clear and balanced legislative-executive relations, the Serbian Government is bound to quarterly report to Parliament on achievements in the European integration process, and therefore contributed to the parliament's strengthened political position as primary decision-maker in Serbia's European integration pace. Besides, the Committee on European Integration was vested with powers to take an active part in the EU-Serbia talks, delegating its representatives in the negotiation group (Milivoevich, 2005, p.108).

Given the fact that Moldova is a parliamentary republic, under the Moldovan Constitution, a defining criterion of parliamentary democracy is that the government is accountable to the parliament, the former being under permanent monitoring by the legislative body in what pertains to the application of the laws, policies and strategies approved by parliament. The legal framework of the Republic of Moldova is practically suitable for exercising parliamentary oversight over the executive and other autonomous authorities. However, this function of the Moldovan Parliament is quite weak and rarely applied. The main reason is its inadequate use by most MPs in their parliamentary work. Therefore there is a strong need to strengthen the internal capacities of the parliament so that enabling it to implement the Copenhagen Parliamentary Guidelines (2003/C 154/01) and the Resolution nr. 1827 (2011) Parliamentary Assembly of the Council of Europe.

The current state of the art of parliamentary scrutiny of the governmental activities in the European integration process and the recent reports by international experts on the Moldovan parliament's efficiency in dealing with EU affairs and scrutiny raised concerns among MPs and in particular the Committee on Foreign Policy and European Integration itself. It resulted in a bill (currently pending consideration by the parliament) developed by the Committee members, aiming at improving the situation, enhancing the Committee's powers in the EU affairs and negotiations, pursuing a more effective and balanced legislative-executive cooperation, democratic legitimacy, better scrutiny and accountability of the government in the EU-Moldova relations. Moldovan scholars even suggest creating a new committee which would deal exclusively with the EU affairs (Suceveanu, 2012, p.71), since there is substantial weakness of the existing Committee as concerns the handling of the European integration universe in particular.

The scrutiny of the government by parliament, consulting and informing the parliament on the EU affairs and each round of the EU-Moldova talks is crucially important in a democracy, especially, in the democratization process where the parliaments have a contribution and remarkable influence, proving to be an indicator of the degree of democratization. It can be noted here a certain interdependence of country democratization through national parliaments and the democratization of national parliaments throughout the European integration process as one of the

driving forces that promote democratic governance through the three dimensions: transparency, accountability and participation.

Another effective instrument for parliamentary scrutiny is greater public participation. Since the parliaments are in a better position than governments are for the 'political marketing' of the European integration having a decisive role in formulating the national interests for the EU negotiations by aggregating the interests of social groups (Ágh, 2001). They also have to communicate the process and the results of accession negotiations to the population at large. This task has also turned out to be more difficult in case of Moldova because the government have almost completely monopolized the representation of national interests and its aggregation, which actually led to the recent decline of the public interest in the European integration path, proved by the latest polls. Therefore Moldova's Europeanization has to become an all-nation process and can be successfully built through the involvement of civil society, and the public at large, since the regulatory framework for the Moldovan parliament's cooperation with civil society was put in place in 2005.

The civil society in Moldova is still weak and needs further consolidation efforts. Its financial support and trainings are generally supported by external donors. Hence concrete steps are needed aimed at bringing together expert civil society organizations, different levels of authorities, and the citizens, to discuss legislative proposals and key priorities that would speed up the European integration process.

## **5. MOLDOVAN PARLIAMENT'S DIPLOMATIC EFFORTS FOR EUROPEAN INTEGRATION**

The role of national parliaments in the formulation of the foreign policy is a quite complex issue. Since foreign policy is largely exercised by the executive, the parliament's social context however offers many opportunities for interaction with similar regional and international parliaments in the European integration process. This interaction is a good source of inspiration, positive practices and instruments, laying emphasis on the prospects for strengthening inter-parliamentary cooperation and joint cooperation in order to create political and normative foundations in the context of the European integration process. Many publications give a considerable importance to inter-parliamentary cooperation, claiming that such networking and this capacity of parliamentary diplomacy would bring an added value to national legislatures.

It finds its way in the meetings of the Moldova-Romania Joint Parliamentary Committee for European Integration, which deals with the transfer of expertise and knowledge between the Romanian Parliament and the Moldovan Parliament, so that the latter should build its capacities to bring its national legislation closer to the European standards, in order to accelerate the pace of domestic reforms required for accession to the European Union, to intensify bilateral and regional dialogue and

cooperation in the context of the European integration, etc., the Moldova-Poland Parliamentary Assembly, which is an inter-parliamentary advisory body established in order to develop common views on issues and projects of bilateral interest, as well as parliamentary delegations participating in regional forums such as the EURONEST Parliamentary Assembly, including its four specialized committees, the Central European Initiative Parliamentary Assembly, etc., which helps the regional exchange of good practice and addressing issues of common interest.

Another platform for close cooperation with the EU institutions is the work within the EU-Moldova Parliamentary Cooperation Committee, which issues recommendations to the EU-Moldova Cooperation Council, the European Commission and the Moldovan authorities. The permanent contact through such an inter-parliamentary structure provides the European Parliament with first-hand knowledge on the specific situation of each country, since the EP delegation does not only meet parliamentarians and officials, but also representatives of the civil society, groups suffering from specific problems, economic groups, members of opposition parties and others (Herranz, 2005). The EU-Moldova PCC is a truly important forum for dialogue and greater mutual understanding on the parliamentary dimension of the EU-Moldova cooperation, in supporting, overseeing and guiding Moldova's progress towards European integration.

Despite the fact that, since the entry into force of the Lisbon Treaty, which has significantly strengthened the powers of the European Parliament, thus indirectly raising the profile and value of the EU-Moldova Parliamentary Cooperation Committee, it should be noted that its potential as concerns collaboration within this inter-parliamentary structure is insufficiently explored. It may serve as an instrument of parliamentary diplomacy to more actively promote the position and achievements of the Republic of Moldova in order to achieve its European integration endeavour, making greater use of this means of cooperation with the European Parliament as a platform to make more visible Moldova's progress on the path of democratization, absorption of good practices and embracing European values.

Another problem is underreporting to Parliament by members of the parliamentary delegations to the parliamentary cooperation institutions about their work within these delegations, about the matters discussed and the results obtained, with a view to continuity of efforts, including in the Government, through feedback. Therefore, there is a strong need to set out rules that would require an effective mechanism of interaction and information.

Finally, it may be equally acknowledged weak institutionalisation, at the early stage, of the inter-parliamentary activity of the Moldovan Parliament in the European integration process, despite many and quite recent actions undertaken by the Moldovan parliamentarians to improve the situation.

## CONCLUSIONS

The legislative-executive relations in coordinating Moldova's European integration process is not formalised, lacking the legal framework required to regulate the role of both government and parliament, and mechanisms of their cooperation on European integration matters, which would put in place premises for a coherent coordination of the EU affairs.

It should be noted however that strengthening the Parliament's legislative function can be achieved if the following is to be fine-tuned: the methodology of developing legal acts, assessment or review of draft laws' ex-ante impact, etc. Currently, several draft laws are adopted without identifying the social and economic impact and without adequate participation of the interested parties. In this context, it is essential to enhance the Parliament's cooperation with the civil society, either via its parliamentary committees or by creating specialized civic consultative bodies under the Parliament's structures, organizing public hearings on bills of public interest, with the participation of decision makers in the executive etc., making therefore the Parliament to be more open to the general public and improving the transparency of the legislators' work.

Given the current context, when European Affairs issues are sidelined on the parliamentary dimension and there are problems concerning the low performance of the parliament in the europeanization process, the Moldovan Parliament needs to Europeanize itself either to create a specialized Committee on the EU Affairs which will bring together specialists in the EU Affairs from other specialized committees, or to enlarge the powers of the existing Committee on Foreign Policy and European Integration vesting it with greater control of the government in the negotiations with EU, how conditionality criteria are observed. It will play a central coordinating role and thus will increase the parliament's effectiveness in the parliamentary coordination of the European integration policies, will have stronger ties with the legislation harmonization centre under the Ministry of Justice, etc.

Since the present government in Moldova came to power on a very strong pro-European agenda and presses forward an ambitious package of reforms that the EU duly acknowledges and supports by way of an unprecedented amount of financial and technical assistance, and the negotiations on an Association Agreement are progressing. The Parliament as the supreme representative institution should strengthen all its capacities and use its entire potential to steer Government's efforts aimed at the European integration, maintain the present pro-integration momentum, help tackle hindrances to the process and strive to reach out to, and truly involve, the entire Moldovan society.

By consolidating the functions of the Moldovan Parliament referred to above, the proper implementation of the instruments and competencies specific to parliamentary representative democracy, improving parliamentary culture, can be raised to the level of democratization, democratic qualities of depth, and therefore

can be realized the potential of democratic parliamentary influence over civic life and the development of the Moldovan society.

Finally, empirical findings made require further research, taking into account their insufficient nature, which gives rise to some theoretical generalizations.

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# EUROPE 2020 – A “SOFT” AGENDA FOR CENTRAL AND EASTERN EUROPE?

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**Abstract:** *Given the partial success of the Lisbon Strategy, it has become of paramount importance to perform a thorough critical analysis of the nature of the objectives set by the newly-concocted Europe 2020 Agenda. Hence, amid the difficult times the European Union is facing, the fulfilment of this complex strategy is largely reliant on the active involvement of each member state. By assessing the overall objectives of the aforementioned agenda, it becomes obvious that the role of Central and East-European states will be essential to their success, all the more because priorities pertaining to growth and cooperation tackle subjects this part of the continent is particularly interested in. The relative experience of such nations in the area of “soft power” policies needs to be furthered, in order for them to attain more convergence and lead to an effective contribution to the social, economic and environmental dimensions of the Europe 2020 Agenda.*

**Keywords:** Europe 2020, soft power, growth, convergence, East-Central Europe.

## INTRODUCTION

The European Union appears to have developed the custom of establishing medium-term perspectives, perhaps in order to promote further coherence in its most prominent areas of action, which is essentially useful, albeit practice has shown otherwise to date. Nevertheless, the recent evolutions of the EU have exhibited such signs of strategic approaches, if we are to consider, for instance, the collaboration between three member states for better continuity, in the case of the rotating presidency of the Council of Ministers, or the heated debates around the multiannual budget. (*The Multiannual Financial Framework 2014-2020, 2012, pp. 11-15*).

### 1. THE LISBON STRATEGY - A VIABLE TERM FOR COMPARISON

The context in which an agenda is set is of paramount importance in terms of the assessment of its feasibility and realism, although unpredictable economic and even political evolutions are likely to rattle the outcome of such perspectives. It is beyond doubt the case of the Lisbon Strategy, whose accomplishment was severely affected by the financial downturn, whilst the more recent Europe 2020 Strategy was

formulated amid the thorny discussions surrounding the sovereign debt crisis. (*Lavdas, Litsas, Skiadas, 2013, p. 130*)

Our aim of evaluating the extent to which this latest set of priorities enunciated more or less triumphantly by the European Union, over a ten-year perspective, may be regarded as realistic. In order to present pertinent arguments either in favour or against this statement, we are convinced of the usefulness of resorting to past experience, namely the sinuous course of action the Union conducted for the much-awaited accomplishment of the Lisbon Strategy, whose deadline was 2010. This will further enable us to make viable predictions about potential outcomes of the newer agenda, while emphasising the role of member states, chiefly from the Central and Eastern part of the continent, as well as that of the institutional framework of the Union, in the post-Lisbon configuration. Needless to say, we will be particularly careful so as to avoid any confusion between the Lisbon Strategy and the Treaty of Lisbon, the latter being the one that defines the functioning of the EU as of the 1<sup>st</sup> of December 2009. (*Schiek, Liebert, Schneider, 2011, pp. 2-4*)

It is the European Council that gave rise to the creation of the Lisbon Agenda, on 23-24 March 2000, acting in the light of its prerogative meant to provide impetus for reform in the European Union. The nature of the priorities uttered on that occasion was heavily reliant on economic concepts, as the principal goal of the Agenda was that of transforming the Union into the “most competitive and dynamic knowledge-based economy in the world, capable of sustainable growth, with more or better jobs and greater social cohesion.” (*Landström, Crijns, Laveren, Smallbone, 2008, p. 3*) If we were to consider the Lisbon Strategy as a project, we may wonder how one could establish pertinent indicators meant to assess its success and mark its completion. How does one measure the achievements that would make the vast and impressively intricate EU economy the most competitive in the world, especially if we were undoubtedly left with little choice but to permanently compare it to economies such as South-East Asia or the United States?

Moreover, a “knowledge-based economy” is difficult to properly address in terms of concrete milestones, as it comprises elements from a broad spectrum of economic angles. (*See: Papadimitriou, Copeland, 2012*). What is certain is that such an economy is largely dependent on the information society, as well as the development of practical skills and know-how, so as to foster adaptability to the globalised world. If applied strictly to the European Union’s context, the aforementioned phrase may pertain to a consolidation of the soft power approach the Union has fostered over the years, which would undoubtedly promote its comparative advantage to other major global economic actors, partisans of a hard power orientation.

In the veritable SWOT analysis performed within the Lisbon Strategy document, we may already trace some of the inconsistencies this project had to face afterwards, namely the high confidence awarded to the stability of the EU’s single

market and the newly-introduced Single European Currency. Only unemployment and the insufficient development of the service sector are given as examples of weaknesses of the EU's economy, which prompted interest in chapters such as competitiveness and social cohesion. A series of welcome directions were thus set by the reform document, of which it is useful to cite the need for better synchronised policies in the areas of Research and Development, Social Exclusion and Regional Cohesion, under the watchful eye of the European Council. Further institutions, both at a Community and at a national level, are summoned to take action in favour of the development of the information society, as a precondition for yet another ambitious objective, that of establishing a European Area of Research and Innovation. (*Presidency Conclusions, Lisbon European Council 23 and 24 March 2000*)

More concrete economic-wise measures were aimed at the enhanced support for Small and Medium-sized Enterprises, as well as the increase in functionality of the Internal Market. Heavy topics were discretely included, such as the Tax Package, which were still reliant on national decision-making systems. As if to turn macroeconomic indicators into potential instruments of measurement of the success of the Agenda, numerous articles focused on the need to invest in people and to build a better functional welfare state, one that would place more emphasis on social protection and inclusion. From these provisions, it becomes apparent that all too often, the Lisbon Strategy calls for generally-accepted measures, while failing to provide more tangible solutions. This brings the document somewhat closer to a manifesto than a genuine reform strategy, even though it is abundant in examples and hypotheses, which would normally facilitate the comprehension of the necessary steps to be taken by both member states and EU institutions. Hence, the sections dedicated to coordination and financing suffer from an inevitable degree of generality, which marks perhaps the softest and most vulnerable spot in the entire document.

The failure of the Lisbon Agenda was deemed as predictable even in the first five-year term of its application, although it would be totally inaccurate to claim its utter malfunction. Let us not forget that the Framework Programmes for Research and Technological Development, otherwise known as the FPs (1 to 8) were initiated so as to be in keeping with the priorities of the Lisbon Agenda. (*Caloghirou, Vonortas, Ioannides, 2004, p. 171*) An interesting report on the progress of the Agenda was issued in 2004, by a High Level Group presided by former Dutch Prime Minister Willem Kok, whose merit was that of comprehending the difficulties in attaining the goals of the Strategy and, therefore, drawing immediate attention to five key areas: the knowledge society, the internal market, the business climate, the labour market and environmental sustainability. From an institutional point of view, the report stressed the need for a concrete delegation of tasks among the European Council, Commission and Parliament, as well as the EU member states and social partners. As a response, the Lisbon Strategy was somewhat rebranded, so as to focus more on growth and employment. (*Kok, 2004*)

Even so, the complicated economic background rendered the overall objectives of the Agenda unrealistic and led to what was believed by many to be a resounding failure. The causes for this also lay in the nature of the document, which was not legally binding, as former Spanish Prime Minister Jose Luis Zapatero underlined when he took over the rotating presidency of the Union, in January 2010. (*Spain calls for binding EU economic goals - and penalties, 2010*) Nevertheless, his somewhat slapdash approach, calling for strict economic goals for member states and penalties in the event of failure, may not be in keeping with the spirit of such documents as the Lisbon Strategy or Europe 2020. Zapatero was right, however, in blaming the poor coordination among member states for what he bluntly called the failure of the Agenda.

## **2. EUROPE 2020 - WHAT LESSONS HAVE BEEN LEARNT?**

Set against this background, which paints a rather bleak picture of the Lisbon Strategy, is the adoption of a new, albeit less ambitious agenda for the evolution of the European Union, under the name Europe 2020. The programme is meant to present itself as a decade-long strategy for growth, which, unlike its predecessor, was drafted with almost twice as large a Union and under the auspices of the economic crisis. Some similarities occur with the Lisbon Strategy, thus becoming veritable leitmotifs in the planning vision of the EU, such as the “smart” approach to education, research and innovation, as well as the focus on sustainability and social inclusion. However, unlike before, the newer strategy is meant to be monitored and implemented with the aid of an enhanced economic governance of the Union, which makes use of surveillance mechanisms, such as the Euro Plus Pact (*Stijn, 2011, pp. 48-49*) or the Stability and Growth Pact (*Official Journal of the EU, 1997, pp. 1-2*), so as to strengthen the EU’s economic environment in general and the Eurozone in particular.

It is with ambivalence that we are tempted to regard the context and general provisions of the Europe 2020 Agenda, in light of the above, although previous mistakes, as shown in the section dedicated to the Lisbon Strategy, seem to have been taken into account. Hence, a more project-oriented approach is now guiding the monitoring of the progress of this much clearer and measurable set of priorities, set forth in March 2010. For transparency purposes, this observation can be conducted by citizens as well, with the help of the user-friendly Eurostat service, as the five main goals of the 2020 Agenda include without exception better quantifiable indicators, as follows: Employment (75% of the 20-64 year-olds to have a job); Research and Development (3% of the EU’s GDP to be invested in R&D); Climate change and energy sustainability (greenhouse gas emissions 20% - or even 30%, if the conditions are right - lower than 1990; 20% of energy from renewable sources and 20% increase in energy efficiency); Education (Reducing the rates of early school leaving below 10% and at least 40% of 30-34-year-olds completing third level

education); last but not least, Fighting poverty and social exclusion (at least 20 million fewer people in or at risk of poverty and social exclusion). (*European Yearbook, 2011, pp. 8-9*)

A more professional description emerges from such figures, one that enables the European Union to go one step further in the implementation of its new strategy, namely that of establishing national targets for each member state. Considering specific national conditions, a clear-cut analysis has been made available to all 27 EU countries, so as to assess the current level of achievement of the Agenda and keep a close eye on its progress. This manner of tackling things is most certainly in keeping with the Treaty of Lisbon, which aims to place more emphasis on each member state and its democratically-elected institutions with regard to policy-making at a community level.

By further comparing the provisions of the two agendas that constitute the object of our study, it becomes evident that, while the general lines remain somewhat similar, the 2020 Strategy opts for a more socially-oriented set of priorities, which benefit from better coherence. (*Marlier, Natali, 2010, pp. 93-95*) For example, the connections made between the indicators pertaining to education and employment give rise to a viable prospect and meet undoubtedly genuine necessities of all EU members. A heavy burden is naturally placed on the shoulders of these countries, which will eventually be left with little choice but to synchronize their outlook on research and development expenditure, as well as on the strategy meant to promote the enhanced use of clean renewable sources of energy.

At the basis of the Agenda there appears to lie the principle of cohesion (*Czekalla, 2011, pp. 18-19*), in keeping with the homonym policy of the European Union, which has become a household word in the discourse pertaining to institutional, as well as economic or financial reform. Having said this, the figures boldly proposed by the Agenda have an uncertain fate, given the enormous disparities amongst member states in some key regards, from the indices germane to education to the use of renewable energy sources and the increasingly worrying trends in unemployment. Without a doubt, however, it works much better with such figures than with pompous formulas all too often deprived of true essence, as one may accuse the artisans of the Lisbon Strategy.

In fact, a quick look over the state of completion of the aforementioned indicators at present is likely to boost optimism, as what was once a purely statistical framework appears to be evolving into an encouraging prospect. Even in the complicated macroeconomic context at present, when the focal points are often Mediterranean countries, the rate of employment in the EU matches the target set by the 2020 Agenda. Furthermore, the use of renewable energy is also situated at the desired standard, although the criterion based on energy efficiency is still a long way away from the goals set therein. The indicators focusing on education are found at values that differ quite lightly from the ones established, which renders valid the prospect of their success, in the available timeframe. The necessity to take action on

behalf of the Agenda, within member states, is chiefly noticeable in the case of the Research and Development expenditure status, where the 3% of GDP target still appears to be rather unrealistic, in the midst of the deficit controversy. ([http://ec.europa.eu/europe2020/pdf/targets\\_en.pdf](http://ec.europa.eu/europe2020/pdf/targets_en.pdf))

It is at this point in our research that we consider it useful to focus on the role of East-Central Europe in the accomplishment of the 2020 Agenda, so as to further evaluate the difficulties the countries in this area may experience in the quest for the goals that have been described so far. The so-called “Country Specific Recommendations” are useful documents drafted by the European Commission for each member state individually, which include yearly priorities that should be addressed in accordance with the specific needs germane to the Europe 2020 Agenda and beyond. (*OECD Economic Surveys: European Union, 2012, pp. 14-15*) An analysis of these documents reveals numerous disadvantages of the newer member states, compared to the indicators from the more experienced ones.

In terms of employment, it becomes apparent that not only the Baltic States, but also Romania and Poland, are experiencing difficulties in reaching the 75% value set forth by the Agenda, which makes the matter of redundancy a key aspect in the macroeconomic vision of such countries. Very significant gaps amongst member states are also registered in the area of school dropout (*Marlier, Natali, 2010, p. 90*), where countries like Estonia and, to a much smaller extent, Romania and Bulgaria, still need to tackle their respective policies in this regard with more effectiveness, albeit by far the most worrying trends are recorded in Malta (with an appalling 29%) and Italy (around 15%). Following the path leading to priorities in the area of education, we have further examined the access to tertiary education in all member states and have once more uncovered major discrepancies in the levels of performance across the EU. Thus, at the positive end of the spectrum one may encounter fairly encouraging values exhibited by Ireland (60%), France (50%) and Belgium (47%), while East-Central European states, with some exceptions, do not meet the requirement set by the 40% threshold. Larger countries in the area, with considerable rural populations, find it particularly difficult to broaden the youth’s access to University studies, which yields rather worrying results in Romania (26,7%), the Czech Republic (32%) and Hungary (30,3%), whilst others, such as Poland (45%), have made a beneficial shift within the education system, in this respect.

Moving on to another set of indicators the Agenda relies on, namely those pertaining to the protection of the environment and the use of renewable sources of energy, as key ingredients of the sustainable development horizontal objective of the EU, we uncover that there are no fewer than three chapters in the 2020 Strategy which clearly assess the member states’ performance in this regard. (*Morata, Solorio Sandoval, 2012, pp. 56-57*) Hence, we are entitled to state that the EU’s awareness of the urgency to properly tackle environmental threats has reached peak values, which is commendable, although, to some degree, overly ambitious in the current

context. As far as CO<sub>2</sub> emissions are concerned, we notice a continuity in the priorities inscribed in the Agenda, as the initial year of reference is none other than 1990, the desired decrease over the 30-year period envisaged being 20%. This time, the analysis of the states' performance leaves very little room for interpretation, as East-Central Europe clearly - and explicably - marks an increase in the levels of pollution, while more experienced member states, having benefitted from the environmental acquis for a much longer time interval, have generally exhibited a decreasing trend, some even meeting the criterion at this time (Denmark, Ireland and Luxembourg). On the other hand, economic development has taken its toll on carbon dioxide emissions in countries like Romania, Bulgaria, Poland or the Baltic States, where an unlikely decrease by 40% may be necessary in order to comply with the target set by the 2020 Agenda.

A far more reassuring picture is painted by the situation of another indicator germane to environmental issues, namely the use of renewable energy sources. In this case, the goals set by the Agenda are less ambitious and appear to be gentler to the capacities of Western member states, some of which do not have sufficient potential in this respect. Hence, the 20% ratio of the total amount of energy produced is comfortably met by Eastern and Central countries like Latvia (the second best performing in the entire EU, after Sweden), Romania and Lithuania, while others in the area should not encounter insurmountable difficulties at this point.

Furthermore, the criterion referring to energy efficiency / the reduction of energy consumption in Million Tonnes of Oil Equivalent (*The EU's Target for Renewable Energy: 20% by 2020, 2008, p. 36*), is one that can be addressed solely at the Union's level, as the overall target of 368 Mtoe is currently being tackled with considerable support from East-Central states, as it would appear logical, given the profile of their energy consumption. All in all, the 20% increase in energy efficiency seems to be in keeping with the criterion we have analysed above, namely the need to utilise more renewable energy sources.

Particularly interesting is the indicator of the Europe 2020 Agenda which pertains to the percentage of GDP allocated to Research and Development in each of the Union's member states, as the accomplishment of this priority relies more than any of the above on political will, albeit we do not intend to neglect in any way the macroeconomic perspectives that are perhaps equally relevant. The figure chosen for this goal, namely 3% (*de Beule, Nauwelaerts, 2013, p. 59*), has been tailored in accordance with the certified performance of some Western member states in the area, as budget allocations have lately revolved around that value in countries such as Sweden, Portugal, France, Austria, Belgium and Denmark. Meanwhile, the situation in East-Central Europe finds most of the countries at half the desired threshold, although with exceptions, such as Estonia, where the currently established goal of 3% is met by the existing budgetary framework. Needless to say, it remains doubtful as to whether most states in the Central and Eastern part of the Union will find it possible to allocate the desired amount of funds to this important sector, while

keeping under control the dreaded budget deficit. What is certain, however, is that without supplementary financing for R&D projects, the “smart” priority of the Europe 2020 Strategy is still a long way away.

Last but most certainly not least, the final criterion listed in the Strategy is also one of the most controversial ones (*Marlier, Natali, 2010, pp. 154-155*), as it refers to the reduction of the number of European citizens exposed to the poverty rate and social exclusion, down to the figure of 20 million. Nevertheless, we have doubts as to whether this indicator is a viable one, given the fact that the methods of calculating it are significantly different among member states, which makes it close to impossible to effectively ascertain its degree of success. What remains sure is that, on average, Central and Eastern states do contribute to this undesirable condition at higher ratios, compared to Western ones, albeit the threshold that defines poverty is assessed incoherently at a European level. Numerically speaking, countries with a large population and considerable unemployment, such as Spain, France and Italy, account for more than 1 million citizens each in the basket used to calculate this indicator.

### **3. IMPLEMENTATION AND MONITORING OF THE EUROPE 2020 AGENDA. AN INSTITUTIONAL PERSPECTIVE**

Having established the nature of the 2020 Agenda, as well as the manner in which it is meant to be tackled by member states, it remains to be comprehended how the European Union’s institutions and bodies can partake in the lengthy process of implementation and monitoring of its progress. Compared to the Lisbon Strategy, we have immediately noticed a more coherent and realistic separation of duties in this regard, which also aims to be in keeping with the overall mission of the respective entities. ([http://ec.europa.eu/europe2020/who-does-what/index\\_en.htm](http://ec.europa.eu/europe2020/who-does-what/index_en.htm)) If one is to begin with the European Council, as the main promoter of the 2020 endeavour, let it be said that its role remains that of providing the guidelines for the implementation and evaluation of the strategies. The spring Council encompasses a progress report on the objectives of the Agenda, while during the June summit, it acts upon the proposal made by the Commission so as to uphold the recommendations made for each of the member states. These prerogatives are consistent with the functions that the treaties grant to the European Council and ensure high-level supervision, without overestimating the impact of intergovernmentalism on the outcomes of the Strategy. Accordingly, the Council of Ministers has a consistent role in monitoring the multiple pathways of the Agenda, based on the mandates and expertise of the relevant configurations of the institution. A useful system of peer reviewing has been set in place so as to foster the exchange of knowledge among the 27 member states.

As previously underlined, the Commission’s duties include the drafting of the Annual Growth Survey, which is meant to be an analysis of the progress reports

issued by the member states with regard to the implementation of the necessary reforms, as food for thought presented to the European Council. (*Praussello, 2012, p. 193*) The positive thing about this method is the use of indicators in the assessment conducted by the Commission, which enable it to formulate pertinent recommendations for member states and, thus, gain an overview of the status of the Agenda. As far as the European Parliament is concerned, its main responsibility, beyond the traditional role of legislator, is to connect the citizens to the debates surrounding the Agenda and make its contents more comprehensible, hence closer to the preoccupations of Europeans. It may work jointly with national parliaments so as to coordinate legislative-oriented actions and help attain a better level of synchronisation. It is not to be omitted the possibility given to Parliament to uphold resolutions on the evolution of the Europe 2020 Agenda, which it may present before the European Council.

Two significant bodies of the EU also partake in the implementation and monitoring of the Strategy and dedicate important resources to it, namely the Committee of the Regions, through its Europe 2020 Monitoring Platform, and the Economic and Social Committee, due to its Europe 2020 Steering Committee. The two entities abide by their traditional advisory role, in order to establish bridges between the regional authorities, respectively the civil society, and the progress of the endeavour. Numerous welcome proposals of partnerships have stemmed from the two bodies to date, which have added a networking component to the Strategy, while enhancing communication flows that are always of paramount importance in the case of such massive European initiatives.

This institutional synergy, although far from being flawless, benefits from the support of national governments, which produce annual reports based on the accomplishments of the Europe 2020 Agenda, in the form of Stability and Convergence Programmes, as well as National Reform Programmes, all of which are fed as data into the cornucopia of procedures that make up the European Semester.

## CONCLUSIONS

Although quite intricate and essentially bureaucratic, it is a fact that, by comparing the Lisbon Strategy to the Europe 2020 Agenda, the latter appears to benefit from more leverage and a clearer set of instruments that are utilised throughout its painstaking implementation. The shift from a literary-wise formula to a more project-oriented one, in other words from a rather idealistic Lisbon Strategy to a more down-to-earth Europe 2020 has led to more maturity on the part of EU institutions in terms of formulating objectives. The increasing use of milestones and smart indicators reflects a more feasible endeavour and provides it with logical framework mechanisms of monitoring and evaluation. Even though the nature of the priorities envisaged by the two strategies is somewhat similar, as we have shown above, the details provided as turning points in the newer 2020 Agenda manage to

make it more “user-friendly” and, thus, easier to adopt by all 27 member states. In spite of the disparities that manifest themselves in the dichotomy West-East, our analysis has revealed that, in fact, some of the chapters addressed by Europe 2020 favour the newer members of the European Union, transforming them into essential actors in this resourceful process. What is certain is that, for the first time in its history, a large part of East-Central Europe has been included in a major synchronisation endeavour, as an equal partner, which shares responsibilities, cooperates and exchanges best practices for the common good. The 2020 Strategy depicts an altruistic agenda, one that requires versatility and discipline, in which no actor, whether it is national or supranational, should step back. There is too much at stake and the responsibility assumed by member states, as well as EU institutions, is outstandingly high, all the more because this time, unlike in the case of the Lisbon Agenda, the opprobrium of the ever more demanding European citizens would be too much to handle. The success of the relatively newly-approved Agenda is doubtful and can only remain so at a time when essential actors such as Mediterranean countries are facing problems that have the upper hand on long-term strategies. However, if the EU is to make a more prominent stand in the globalised world, it most certainly needs to prove its capacity to implement and abide by the strict norms of a common agenda, one that does reflect soft power, but in a way that Europe can benefit from.

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# MODALITIES OF INFLUENCING THE BEHAVIOR AND FORMATION OF MOLDAVIAN STUDENTS BY THE FRONT OFFICE PERSONNEL OF IASI UNIVERSITIES

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**Abstract:** *In the last 10 years a great number of Moldavian students enroll for Iași universities, aiming to study, in order to correspond to the requests of the labor market, especially the European one. This paper represents the result of a study performed in order to emphasize the role of the front office personnel from Iași universities in orientating these students and in assuring the social responsibility of these institutions.*

**Keywords:** Moldavian students, professional orientation, universities

## INTRODUCTION

Assuring the high-quality of higher and vocational education and training in order to satisfy the needs of the European labor market represents one of the fundamental aim of UE, since the adoption of the Lisbon Strategy in 2000. As a result, each member state is looking toward implementing the strategic framework for European cooperation in education and training „ET 2020”, in order to improve the efficiency of the educational process, to enhance creativity, innovation and entrepreneurship, and to promote social equity and cohesion, or active citizenship. (European Commission, 2013)

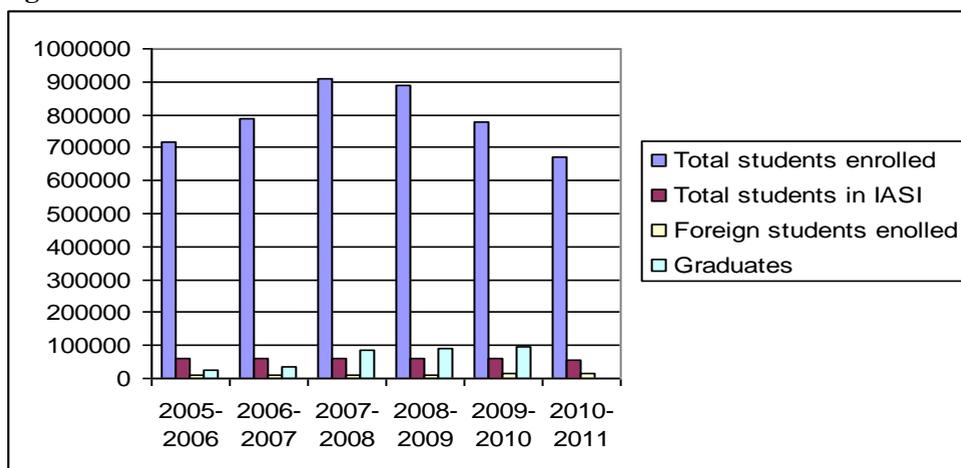
In the context of the growing evidence that skills supply does not meet the real needs of the European labour market (European Vacancy Monitor, December 7th 2012, p.16) and due to the conclusions of the European Council of December 13th and 14th 2012 (EUCO 2012, p. 205/12) the member states were suggested to strengthen the role of education and training by raising the performance of their education and training system as a result of more effective relationships between the professional practice and education and also of a better communication and strong partnerships regarding the education and occupational policies. (Official Journal of the European Union, 2013, p. 64/5, 64/6)

## MOTIVATION AND AIM OF THE STUDY

As a member of the European Union, Romania has reformed its educational system, in order to satisfy the three key-priorities settled in the Bucharest Communiqué in April 2012, mobility, employability and quality, as a result of signing the Lisbon Declaration.

Romania also has a certain tradition in tertiary education, a great number of students attending the courses of the Romanian universities. As one can notice from the first figure, the most part of the students are Romanian but one must take into account the number of foreign students is rising starting 2006 from 9944 to 16138 in 2011, while the total number of the students tend to decrease from 716464 in 2006 to 673001 in 2011 (figure 1).

**Figure 1. Evolution of the number of students in Romania**



Source: Anuarul statistic al Romaniei 2011, p. 244, 246

The city of Iasi has also a great importance and tradition in the Romanian education system, due to its 8 universities (of which 4 public and 4 private), although the total number of students has decreased as well, from 60686 in 2006 to 55557 in 2011.

The noticeable fact that motivated this study is that the Romanian Ministry of Education is interested in developing and strengthening its relationships with its homologue of the Republic of Moldova. Recently, a collaboration protocol for the years 2012-2013, 2013-2014, 2014-2015 has been signed by the two Ministers of Education, that stipulates the students exchange policy adopted by the two states and the number of students foreseen to participate in the programme, as following:

**Table 1. The number of students participating to exchange programme as foreseen in the Collaboration Protocol**

Number of studying places granted by the <b>Romanian Government</b>		Number of studying places granted by the <b>Moldavian Government</b>	
Cycle I Bologna	700 places with scholarship, no fee, for the graduates of the Republic of Moldova	Cycle I Bologna	100 places with scholarship, no fee
Cycle I Bologna	300 places with scholarship, no fee, for the Moldavian citizens graduates of the Romanian highschools		
Cycle I Bologna	100 places with scholarship, no fee, for the graduates of the Republic of Moldova		
Cycle II Bologna	50 places with scholarship, no fee, for the Moldavian citizens graduates of any EU state or the Helvetic Confederation	Cycle II Bologna	50 places with scholarship, no fee
Cycle III Bologna	25 places with scholarship, no fee, for the Moldavian citizens graduates of any state for medical internship	Cycle III Bologna	50 places with scholarship, no fee, doctoral studies
	25 places with scholarship, no fee, for the Moldavian citizens graduates of any state for doctoral studies		100 months scholarship for academic mobilities
	500 months scholarship for professional stages, of which 300 for the teaching personnel and 200 for students		

*Source:* Protocol de colaborare intre Ministerul Educatiei, Cercetarii, Tineretului si Sportului din Romania si Ministerul Educatiei al Republicii Moldova pentru anii de invatamant 2012-2013, 2013-2014, 2014-2015

Given these facts and considering that, in order to achieve the Europe 2020 goals the EU Commission suggests to the member state to focus on improving the quality of the education and the professional training by enhancing links to the world

of work due to mobility, we aim to find out whether the employability will be in an uptrend, in Romania, in UE space or in a non-UE countries.

## 1. THE METODOLOGY OF THE RESEARCH

The research instrument is a structured questionnaire, with 12 questions, of which 1 yes/no open ended question, 1 yes/no close ended question, 4 multiple choice close ended questions, 5 scaled questions and 1 completely unstructured open ended question.

The questionnaire was meant to survey the behavior and the attitude of the Moldavian students enrolled in iasi universities, in order to find out whether the communication with the front office personnel of the universities is fruitful and stimulating in term of professional activities and personal career.

The 74 respondents are Moldavian students, of which 44 females and 30 males, with the age between 18 and 26 years, 85% coming from urban area.

The survey data collection was performed as follows:

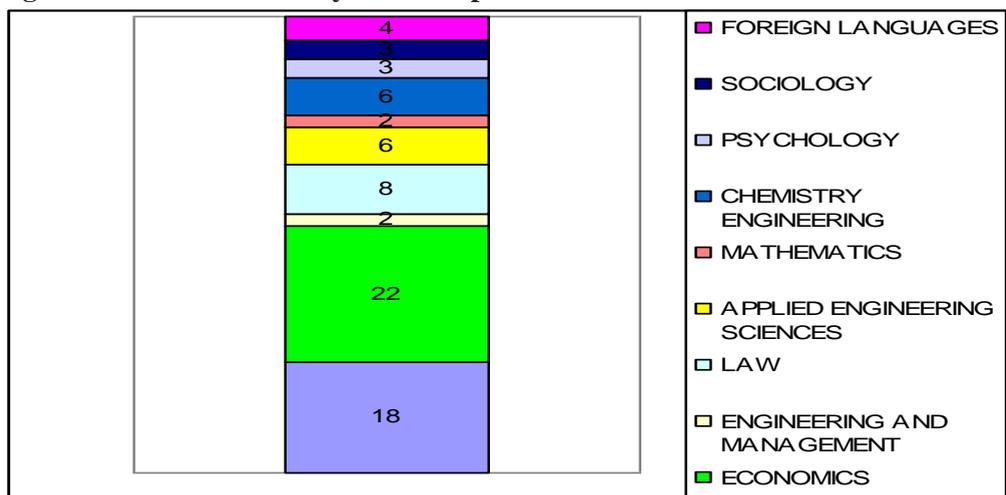
Personally administered questionnaires: 27

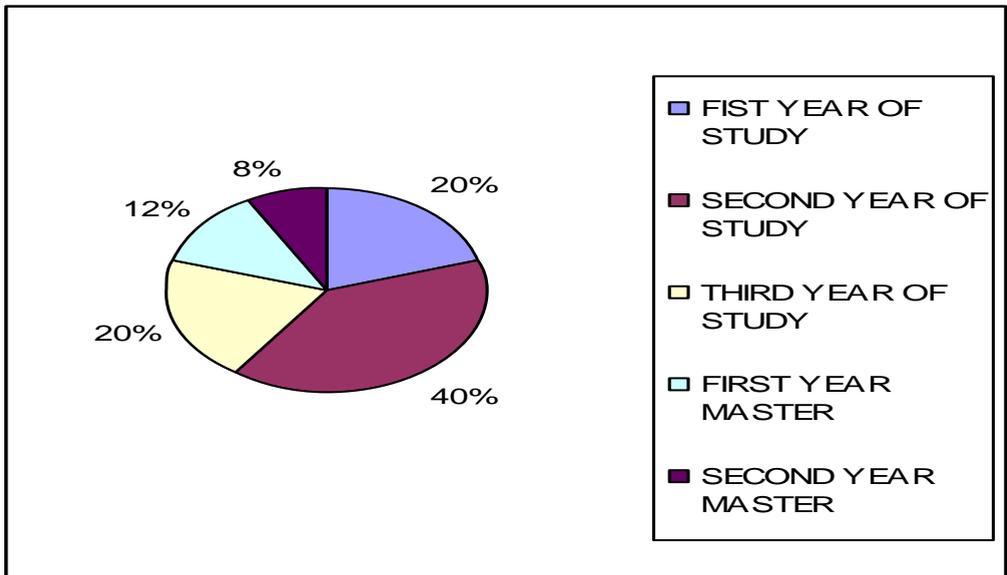
E-mail administered questionnaires: 10 (including iasi@tineribasrabeni.com, atrag.iasi@gmail.com)

Online administered questionnaires: 37 answered via [https://docs.google.com/forms/d/1YR0cfi26wjiVt4C8nKia7jGxo\\_ktiUjuERyytze7T8/viewform?sid=1fcdc78e36f7d83a&token=4rsizz0BAAA.G03JYFYVgNNEgaxzQNprbg.hlqUI174W5OjJ8LpC0pHkg](https://docs.google.com/forms/d/1YR0cfi26wjiVt4C8nKia7jGxo_ktiUjuERyytze7T8/viewform?sid=1fcdc78e36f7d83a&token=4rsizz0BAAA.G03JYFYVgNNEgaxzQNprbg.hlqUI174W5OjJ8LpC0pHkg).

The domains of studying of the respondents are diverse enough in order to assure the results are not one-sided or biased:

**Figure 3. The fields of study of the respondents**



**Figure 4. Distribution of the students by the year of study**

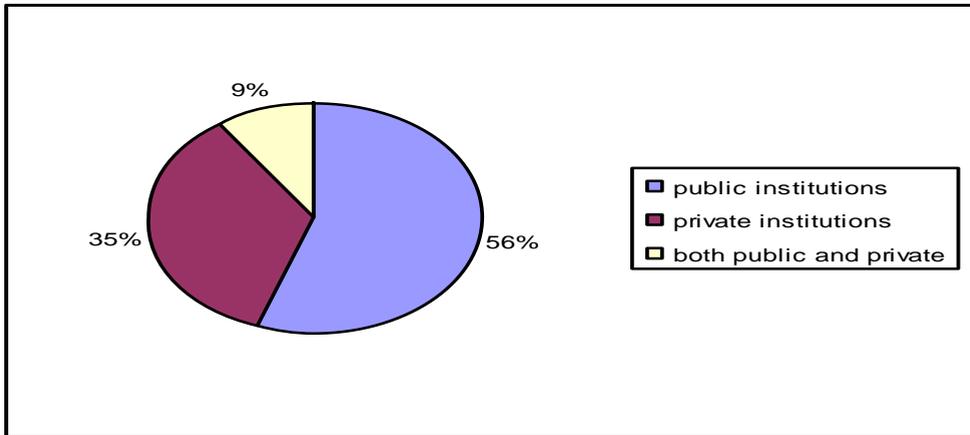
The period of the administration: February 10th – March 30 2013 (previous pre-test March 26th – April 8th 2013).

The questions are meant to emphasize which are the education institutions the Moldavian students address to or prefer, if they are interested in developing a career in the field they study or if they just need to study in order to obtain a diploma, if they keep informed regarding the labor market, if they address frequently to the personnel of the universities in order to be informed or just for administrative matters.

## 2. RESULTS

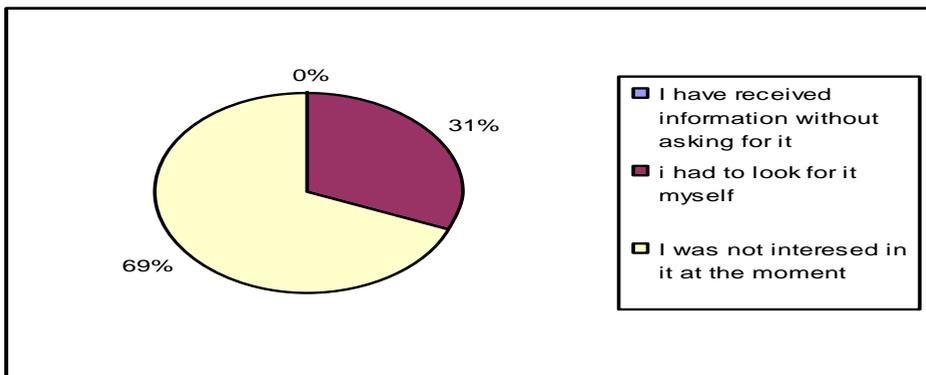
Regarding the type of the institutions to which the student have been in touch, from the moment of enrolling, one notice that public institutions are preponderant:

**Figure 5. What kind of education institution have you addressed to?**

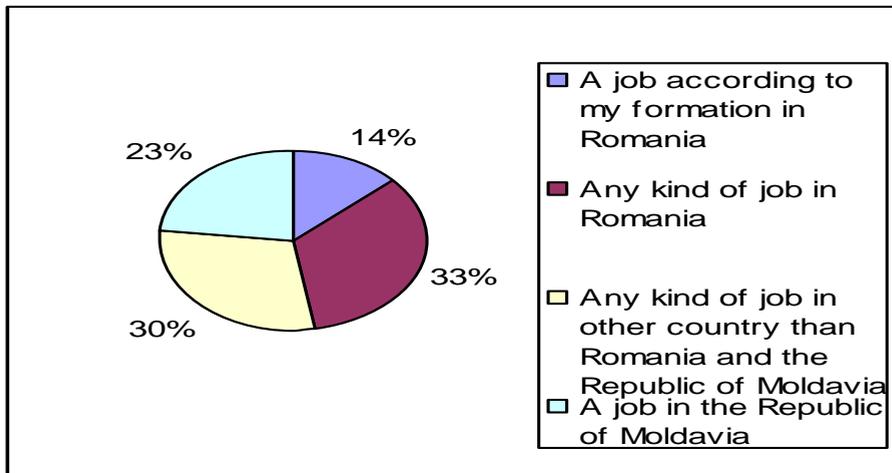


Related to the initiative of the personnel to inform or suggest to the new enrolled students about the possibility of finding a job or beginning a career in the field they study, one notices an interesting fact, that is no confirming answer, and, the lack of interest in obtaining such information,

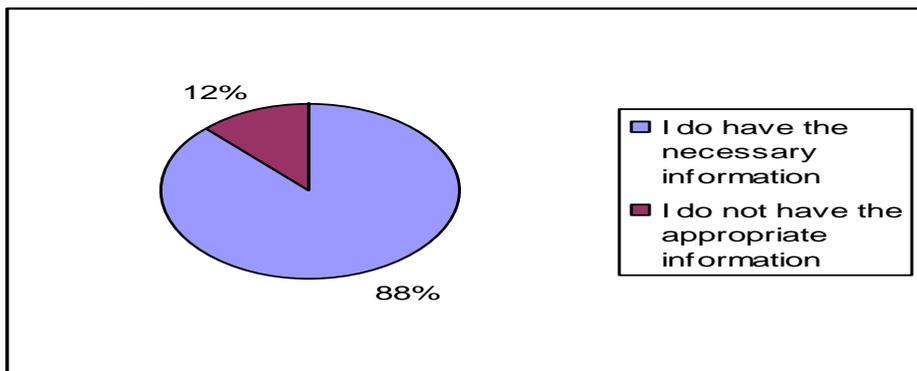
**Figure 6. Have you been informed about the hiring possibilities during studies and after graduation, at the moment of your enrolling?**



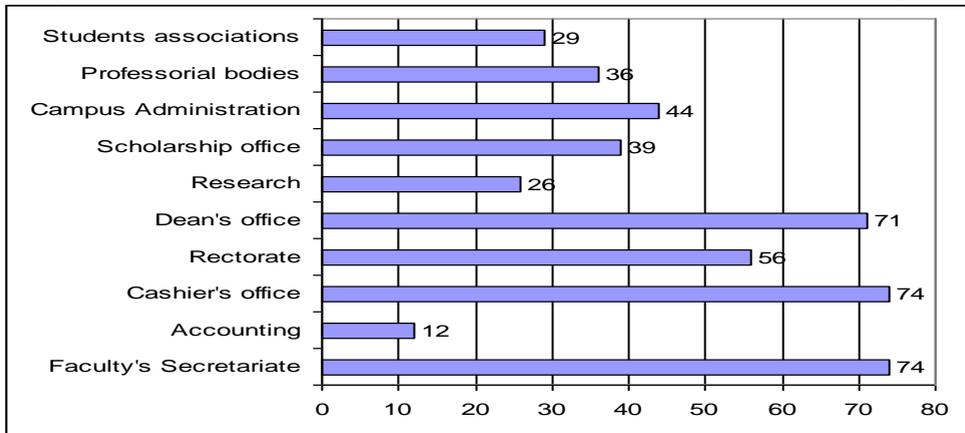
although (figure 7), after graduating the most part of the students wish to find a job outside the Republic of Moldova and only 22,9% intent to go back to their motherland. It is also noticeable the fact that 29,7% intent to look for a job in another country but Romania and the Republic of Moldova.

**Figure 7. Distribution about the future after graduation**

It is also interesting the fact that, although the majority of the respondents (39,1%) belongs to the bachelor cluster (the second year of study), 87,8% of the respondents consider they hold enough information about the labor market in Romania and EU, which determines us to suppose they obtain this information outside the university (figure 8).

**Figure 8. Do you consider you hold enough information about the Romanian and European labour market and business environment at this moment?**

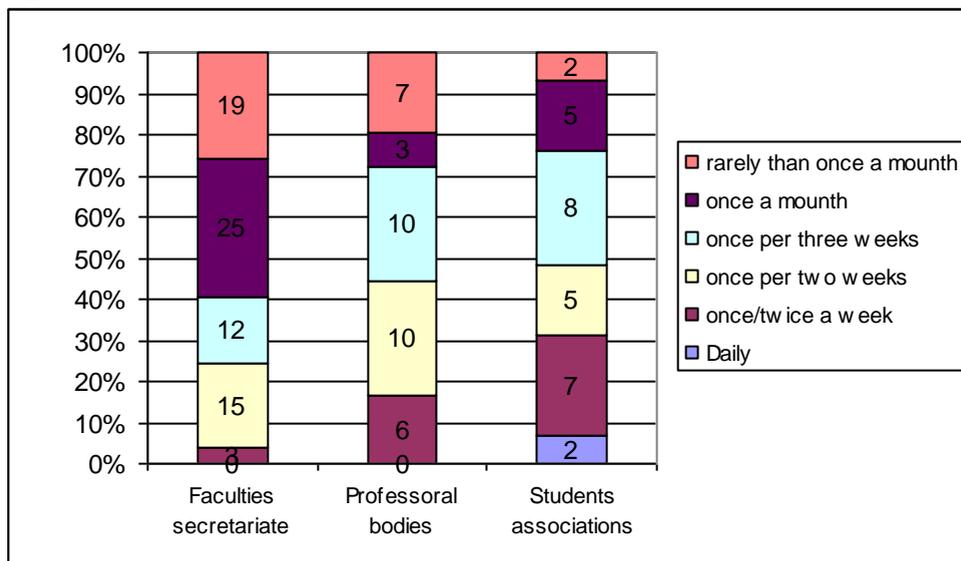
The answers to the next questions (figure 9) shows the great importance of the three departments one could consider the base of the communication infrastructure of the university: the faculties secretariate, the rectorate secretariate and the dean's office. We excepted the cashier's office, although it registered the same addressing rate, as we suppose it does not transmit information related to labor market.

**Figure 9. What department of the university have you been addressing to?**

One can also observe the fact that the campus administration is one of the department often approached, a logical fact if one consider a great part of the Moldavian students lives in the campus, but it is intriguing that the research and students associations are only 26%, respectively 29% rated. A small addressing to the scholarship office also shows a lack of communication of Moldavian students with the university's departments and with the other students also. The professorial bodies are also low rated (36%) compared to the faculty's secretariate. This rises a question mark over the possibility and the efficiency of establishing the right connections between the students and the persons qualified to contribute to their formation, to improving their education, behavior and correctly inform about the opportunities that can occur at a certain moment.

Regarding the frequency the students address to a certain department or office, one observe a clear delimitation between the accounting department, the cashier's office, the rectorate, the dean's office, the research department and the scholarship office that are approached less than once a month and the faculty's secretariate, the professorial bodies and the students associations.

**Figure 10. What is the frequency you address to the personnel of the departments?**

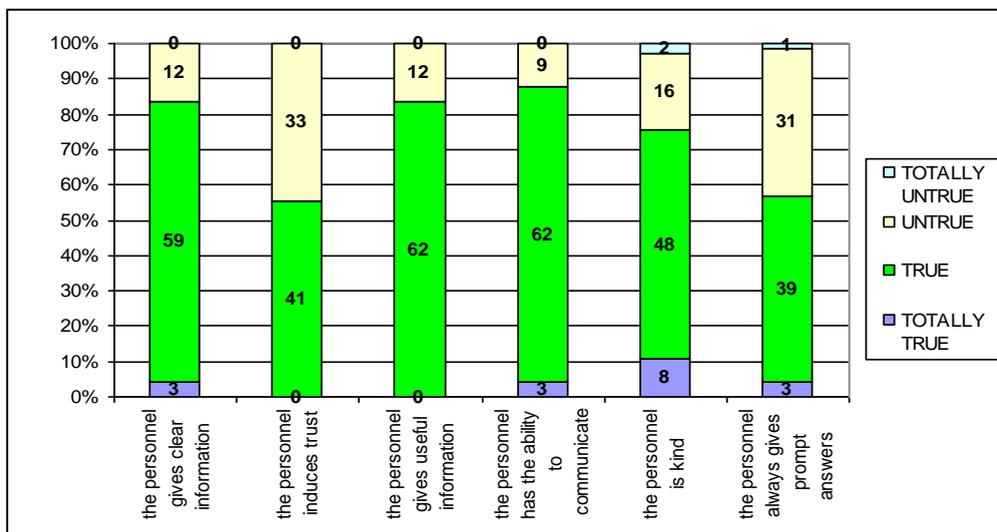


One should not omit the fact that the faculty's secretariate is approached by all the respondents (100%) while the professoral bodies and the student association are approached only by 48.6% and 39.1% respectively.

From the total of 74 respondent more than 59% address to the secretariate personnel once a month or rarely, which makes us conclude they have not the possibility to develop relationships and to form an objective opinion upon the personnel's skills. Regarding the professoral bodies and the students associations, only 26 students (35.1) and 24 respectively (32.4) of the total 74 keep in touch with them more than once at three weeks, of which 6 once a week, respectively 7 once a week and 2 daily. We deal with a small number of answers to consider them representative for the Moldavian students community of Iasi regarding their opinion on the relationships and influence of the professors and of the Romanian or other foreign colleagues on their professional orientation.

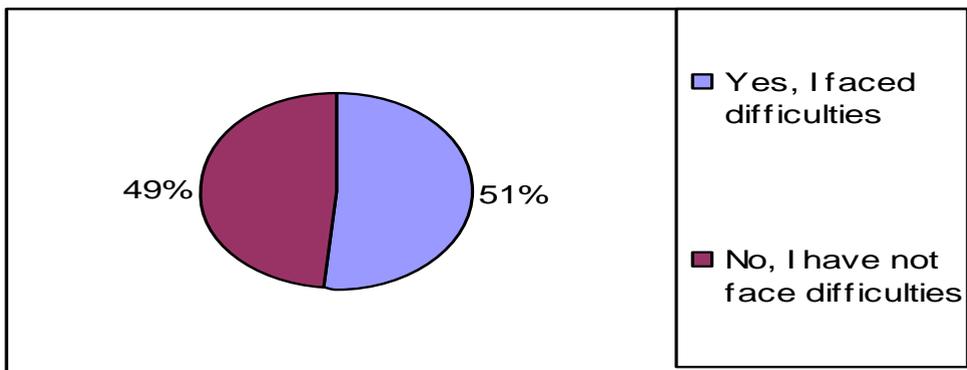
After checking up the frequency of approaching, one request an opinion on the personnel's skills of communication (figure 11). The majority of answers reveal the existence of these skills on the universities front-office personnel.

**Figure 11. Please appreciate the following statement (from totally true to totally untrue)**

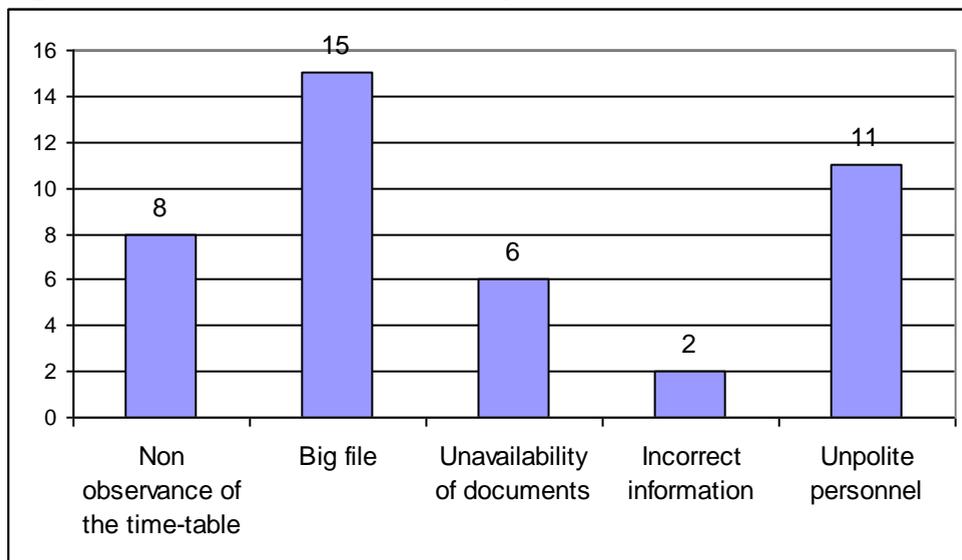


However, in order to check the respondents objectivity one ask about the possibility of facing difficulties or other kind of problems when approaching the administrative personnel (figure 12).

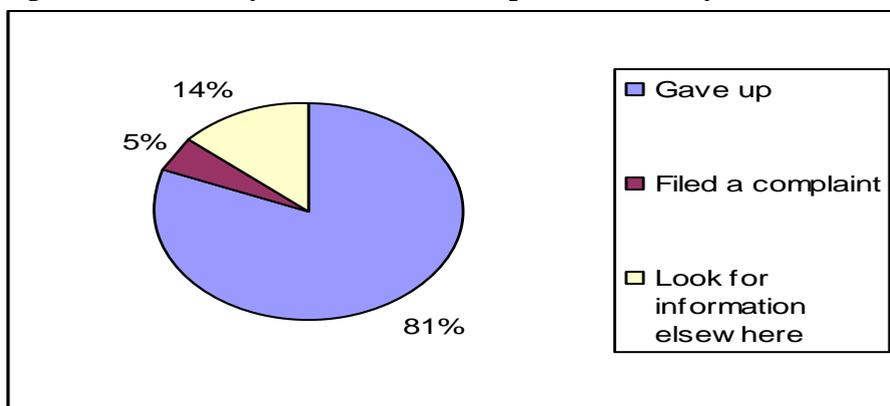
**Figure. 12. Did you face any difficulties when addressing to the personnel?**



One remark the fact that the responding group is homogeneous, that gives us no possibility to appreciate the odds of facing or not facing difficulties. Yet, the 38 respondents that considered they faced difficulties had to specify the kind of the problem they have confronted with (figure 13) and to specify the manner they dealt with (figure 14).

**Figure 13. What kind of difficulties did you face?**

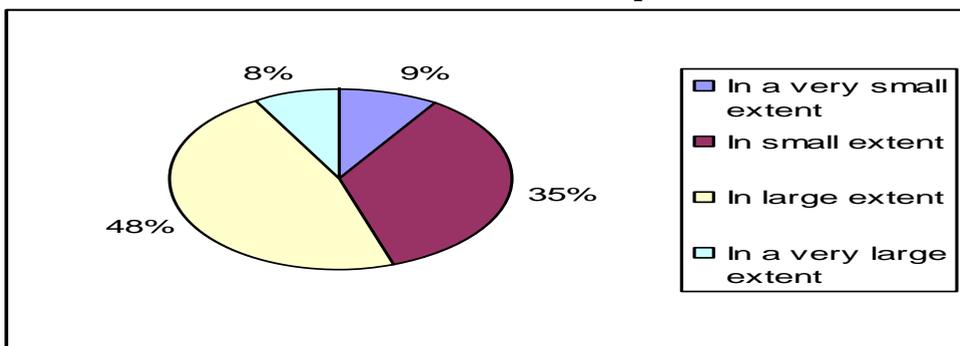
One notice the problems named by the respondents are the common problems of the administration personnel in the eastern countries, and are the result of an inefficient human resources management. Other larger studies have already proven it in *Preliminary research on the management of front office staff* (2012, Trocin A, working paper).

**Figure 14. How did you deal with the respective difficulty?**

Also, the manner of dealing the problems by the Moldavian students fits the patterns, i.e. giving up is also a specific way of dealing problems in the eastern states mentality (Marinescu, 2013).

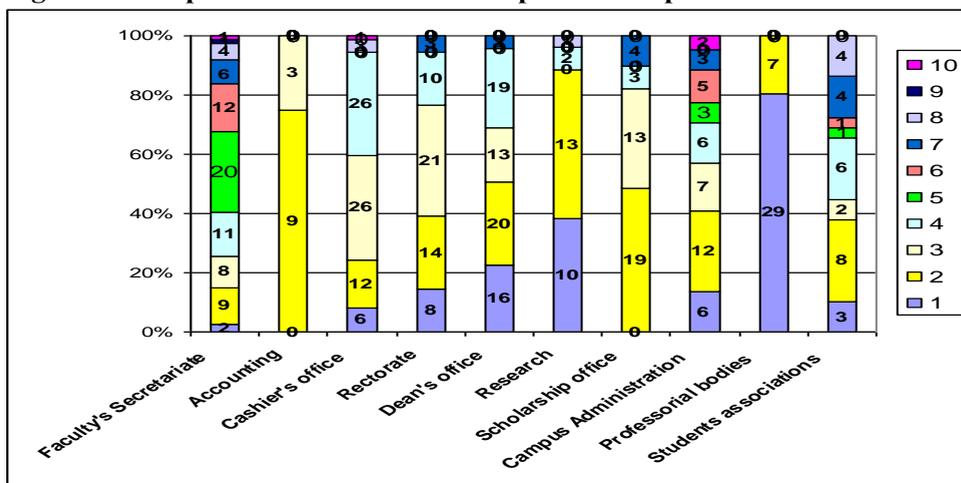
Finally, testing the opinion on the possibility of obtaining useful information from the personnel of high education institutions also shows an homogeneous responding group (figure 15).

**Figure 15. Appreciate the extent in which you believe one can obtain useful information from the universities personnel**



The respondents were finally asked to note on a scale from 1 to 10, one meaning fully satisfied and 10 not satisfied at all, the performances of the departments they have approached so far (figure 16).

**Figure 16. Respondents notes for each department's personnel**



This time, their answers shows clearly a good appreciation for the professorial bodies and the research department, the only specification we do being the small number of those who declared they have approached these departments.

## CONCLUSIONS

This study allows us to conclude that in Iași is insufficient and unefficient communication between the universities personnel and the Moldavian students, not only regarding the information about the labor market and the possibilities of following a personal career, but in general information. It appears that there is a lack of communication between the students and the students association as well between the students and the front office personnel and the professors seem to be the „first communication key”. There is still much to do regarding the behavior of the front office personnel, related to its professional training, its formation and the way in which they adopt the policy of the institutions.

The study can go further and be improved by surveying the opinion of all the foreign students that study in Iasi universities or other universities from Romania.

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# THE EU'S SOFT ATTRACTION OF EASTERN NEIGHBOURS AND ITS INTERNATIONAL CONSEQUENCES AS IN THE EXAMPLE OF UKRAINE

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**Abstract:** *Soft power will be effective in many ways if its targets would accept and observe the used instruments. What kinds of soft power can the EU use, and how relevant these on those Eastern neighbours in general, Ukraine in particular? Were these political instruments used in the same region previously by some other influential powers? Which one might be the most effective and how far it will be observed by the locals? There are many questions need to be answered on the ENP as a soft power whether it will be effective on the Eastern Europe. The EU has potentials and capabilities to use its soft power where hard power exercised previously. Some of the union's soft power initiatives are declining while others on the rise. The recent international developments and changes within the EU and the region create great concerns. Dualities and dilemmas in its soft politics among the Union may create additional difficulties in implementation on targets. This study will focus on the Union's the ENP Action Plan as a soft power and its overall assessment of the policy implementation on Ukraine. How these approaches will be classified by the International political theories and its consequences for the region.*

**Keywords:** European Neighbourhood Policy, Ukraine, Soft power, international affairs.

## 1. EUROPEAN EXPERIENCE OF SOFT POWER USAGES: THE ENP

Soft power will be the ability to attract and co-opt on targets rather than coerce as coined the term by Joseph Nye. For the realisation of soft power the EU's image and influence has to change. At present the EU's rules and regulations, particularly on visas, are seen as a strong bureaucratic barriers to welfare states which creates an imperialist outlook rather than inspiring optimism and hope for those poor and vulnerable societies around its borders. European Powers were not able to dictate any more what they had aimed at the first half of the 20<sup>th</sup> century by force, namely hard power. It is recognised that the newly established supranational identity, the EU, has to commit more money and effort to its soft power tools including diplomacy, economic assistance and communication.

On the other hand, despite the various ways to elimination efforts the EU should acknowledge that racism and extremism is a real threat and likely to be with Europeans for decades to come. Some of the EU states, Germany and Austria in this sense, should respond adequately to the provocation of their extremists and racists within their countries. Such racist and extreme terrorist activities in the EU countries seriously undermine the EU's soft power initiatives. By awakening up those old hatreds and sour memories of the recent past and institutional racism had to be dealt adequately and urgently.

Soft power can be effective in many ways on targets. In order to be well received the intended soft power instruments by those target countries and individuals, policies have to be accepted and observed as well intended and for those peoples' benefit. There were many hard policies applied on the Eastern European countries for the implementation of the Western European Powers' domination. Russia on the other hand, pursued policies from the East to the similar end (Bourne, 2000, *passim*). How far relevant and effective were those policies on these Eastern countries were another matter for discussion. Nevertheless, various hard and soft power instruments were used in the same region previously for the interest of influential powers is still fresh in minds and hearts of the locals. Which power usages might be the most effective and how far these policies were observed by the locals shows in the present communities of the region.

In this political environment there are many questions need to be answered on whether the European Union Neighbourhood Policy (ENP) will be effective on the East European countries and on their population. There is variety of ways to use soft power on others. The EU has capacity and capabilities to use its soft power where hard power exercised previously in Eurasia (Eastern Europe) on EU's Eastern neighbours.

At present some of the EU's soft power instruments are declining while others are on the rise depending on the recent international developments and changes. Economic vulnerabilities in Greece, Spain, Portugal and Cyprus are a great concern among non-EU countries whereas rules and regulations on health and safety issues are well received as positive developments for individuals' safety and health. Dualities and dilemmas in its politics among the member states may create difficulty to understand some of EU's cultural policies particularly accepting others into their own. One the one hand, the EU's policy put forward as "unity in diversity", on the other not accepting non-Christian and non-liberalists to the Union create difficulty to understand the essence of the policy. Such policies create inconsistency which pay the way that EU is not a trustworthy institution for the candidates and neighbours. Nevertheless, the Union will be attracted not because of cultural and moral values of it, rather its economic and welfare policies of individual and private expectations by the various parties.

The European Neighbourhood Policy is expected that it will reinforce stability, security and contribute to efforts at conflict resolution among others in

EU's neighbours. The EU prepared and constantly evaluating its documents on the development of regional and inter-regional cooperation and further integration at the enlarged EU's external borders. It is expected that the ENP will contribute to develop regional interaction in the area of trade, security and energy supply across the nations. The ENP's aim is involving a ring of countries, sharing the EU's fundamental values and objectives, drawn into an increasingly close relationship, going beyond co-operation to involve a significant measure of economic and political integration if not unification. Here is seen that the EU is expecting its values and objectives are respected and well received by the neighbouring countries. The fundamental question is, however, what will be neighbours' values and objectives and their economic and political dependency, and how far the EU is ready to well receive and respect to others' cultural and moral values and their long-term expectations? This is still remains an obstacle between the EU and the rest of the non-EU members of the regions (David Cameron's EU speech).

This study intends to contribute for better understanding how the EU's ENP Action Plan is on the use as a soft power and its overall assessment of the policy implementation on Ukraine and beyond. How the EU political approaches will be classified by the International political theory? What would be the possible consequences of such policies for the region in particular, wider world in general?

## **2. WHAT IS THE EUROPEAN NEIGHBOURHOOD POLICY ALL ABOUT?**

The European Neighbourhood Policy is expected that it will reinforce stability and security in the region, and contribute to efforts at conflict resolution within and wider regional dimensions (COM(2004) 373 final). The EU prepared a document which recommend on the development of regional cooperation and even integration at the enlarged EU's external borders (COM(2004) 373 final, p.4). It is expected that the ENP will contribute to develop further regional integration particularly in the area of trade, security and energy supply 'for the targeted region and the EU (COM(2004) 373 final, p.4). The ENP's aim is involving a ring of countries, sharing the EU's fundamental values and objectives, drawn into an increasingly close relationship, going beyond co-operation to involve a significant measure of economic and political integration (COM(2004) 373 final, p.5). Here is seen that the EU is expecting its values and objectives are respected and well received by the neighbouring countries even though in following pages the EU stated the contrary (COM(2004) 373 final, p.8). It seems this is still remains an obstacle between the EU and the rest of non-EU members of the regions which reminds old memories of the recent past (Ponting, 2001, passim; "*Between Hitler and Stalin: Ukraine...*").

The ENP policy aim is to contribute and create an atmosphere to solve those existing conflicts among the neighbours. Whether these conflict resolutions will be

made according to the involving parties' interests or the EU member states' favour is another issue to be discussed on. The EU accepted southern Cyprus as a member of the EU before to solve the status and conflict on the Island (Öztürk, 2004; Denktaş, 1997; Kalaycı, 2004). The ENP regarded that it will contribute easy transition and acceptance of neighbouring countries' political and economic transition and cooperation with the EU. (COM(2004) 373 final, p.6). It is general expectation that the EU policies will be useful for the fight against organised crime and corruption, money laundering and all forms of trafficking and migration. The ENP may also help to harmonising of complementarities and synergy in the different areas of cooperation between the EU and neighbour states (COM(2004) 373 final, p.7).

It is stated in the EU documents that "in Eastern Europe, the Partnership and Cooperation Agreements provide the basis for contractual relations" (COM(2004) 373 final, p.7). It is further declared and encouraged the aimed countries that "the ambition and the pace of development of the EU's relationship with each partner country will depend on its degree of commitment to common values, as well as its will and capacity to implement agreed priorities" (COM(2004) 373 final, p.7). In any negotiations, most of the time, stronger partner dominates the weaker part in a relation of the two involving parties or so. The EU which consist of 27 members at present, definitely dominate, even dictate, the agreed values and priorities. So, it is almost impossible for any weaker partner to lay dawn any priority or a value against the wishes and desires of the member states and its subsequent bodies (Linklater, 1990, p.17-37). Nevertheless, special attention will be paid to peculiarities and circumstances of the partners' geographic location, political and economic situation. It is the relations with the EU and neighbouring countries, reform programmes, needs and capacities and interests of the ENP will be influential on the matter of final decision on the relations. This meant every one of the countries in concern will be dealt individually and differentiated according to their special circumstances (COM(2004) 373 final, p.8). The shared values and coherent regional approaches should contribute for further regional cooperation and more benefits for the partners within the umbrella of the EU.

The ENP major aims to make the EU neighbours are more focused on the EU policies and principals. So, neighbours will feel close in various ways to the EU and its members. It is hoped that this might prevent any hostile feelings and movements against the EU and its associates. The ENP will facilitate benefits in economic and social development through convergence of economic legislation, the continued reduction of trade barriers which will stimulate investment and growth of desired activities first and far most for the EU, and then neighbours. It is expected to resolve outstanding issues between the EU and neighbours as well as among the neighbours of the neighbours. Good neighbourhood environment will provide better acceptance and implementation of previously agreed and ongoing agreements. The EU is supporting and has an intention further financing this programme for cross-border, transnational and regional co-operation for the benefit of its member states.

The aimed links on community programmes, promoting cultural, educational, environmental, technical and scientific linkages for the implementation of the policies (George & Bache, 2001, p.6-155). Whoever meets EU norms and standards will be able to get financial and other means of support of the EU which will be decided by the Commission (COM(2004) 373 final, p.9). If the process demonstrates good progress, further steps along the path to greater integration will be made particularly on the internal market and other key EU policies. So, the system and process is a dynamic nature for further progress and changes depended on newly emerging situations which will be assessed by the Commission. One of these assessment statements was made by EU High Representative Catherine Ashton on the situation of NGOs in the Russian Federation on 26 March 2013. The High Representative is a staunch supporter of freedom of the press, which is a fundamental element of a democratic society.

### **3. THE ENP AND UKRAINE**

The EU Commission published an ENP report of Ukraine on 12 May 2010 (The MEMO/10/185). The report was on an overall assessment of five years of implementation of the ENP. It is stated that “after years of steady progress in many areas covered by the Action Plan, Ukraine witnessed a slowing in the pace of reform in 2009, as a result of global economic and financial crisis and domestic political and constitutional difficulties.” What was indicated in the report that the internal politics and constitutional issues continue to create the difficulties on the implementation of the EU’s neighbourhood packages. So, this determines the requirements some amendments and alterations initially on the domestic political issues in Ukraine. Whether Ukraine was ready to such changes and alterations on the directions of the ENP packages was another matter for each involving partners. It was expected that ‘what is good for the EU, should be also regarded ‘as good’ for Ukraine’. According to the report, ‘Ukraine was ready for those changes but require economic stability and further progress is needed’. It is decided by the EU officials that global economic and financial crisis played a crucial role for the slowing pace of the requested reform.

Further steps had to be taken according to the report which stipulates on “efforts to enhance macro-financial stability, reform of the constitution in order to enhance political stability while maintaining the pace of democratic development, energy sector reform (in particular as regards gas), public administration reform, the fight against corruption notably through judicial reform as well as measures to improve the business and investment climate.” When these changes and requirements met adequately as suggested by the Commission, and then, the new assessments will be made according to the new developments and situations in the line of the EU necessities.

Most of the issues mentioned on the EU and Ukraine relations are as political matters, governance and along with the Common Foreign and Security Policy

(CFSP) an Association Agenda. Despite many short comings the EU regarded the 2010 presidential elections as met with the EU's democratic standards (The MEMO/10/185). In 2009 the EU launched the Eastern Partnership, the Eastern dimension of the ENP framework, aiming at substantially upgrading engagement with the six Eastern neighbours by Bilateral track, whose objectives include Association Agreements, Deep and Comprehensive Free Trade Areas as well as progress on visa and mobility issues, Multilateral track which is intergovernmental platforms and Flagship Initiatives. These approaches expected for gradual political association and deeper economic integration between the parties. In July 2009 the European Convention on Trans-frontier Television entered into force, so, the pluralistic media environment was offered to Ukrainians. In order to achieve equality and antidiscrimination issues among the citizens of Ukraine 'a Gender Equality Commission' was established in December 2009. There were also some Ukraine alignments with the EU's CFSP positions such as in Somalia and in the Balkans. As it is seen in the political sense, Ukrainian authorities tried to accomplish the requirements.

On the economic integration and trade sphere there was %15 fall in GDP of Ukraine due to the global economic and financial downturn. Although the IMF agreed with Ukraine for \$16.4 billion under the 24-month stand-by in November 2008, the payment has withheld due to reason put forward as that 'Ukraine is no longer on track for key conditions'. Nevertheless, \$10.6 billion had been disbursed by July 2009. Meanwhile the EU proposed a macro-financial assistance of €610 million, but this was subject to IMF Stand-By Arrangement 'being on track and a number of structural reforms'. The trade between the EU and Ukraine fell by %45 which from €39.6 billion to €21.75 billion in 2008 and 2009 respectively. The EU is the number one in Ukraine for its foreign trade relations. On the other hand, Ukraine is the biggest trade partner in the ENP East region. So, this consist of the EU's 24<sup>th</sup> trade partner in the world by the volume of %0.9 in total of the EU trade in 2009. There were five rounds of negotiations took place in 2009 for the establishment of a Deep and Comprehensive Free Trade Agreement (DCFTA) with the EU (Klimkin, 2011).

The EU aims to promote mobility and fighting on irregular migration for the benefit of the EU member states. The relations wanted to be deepened the dialogue on the establishment of a visa free regime for short term travel. The EU officials visited Ukraine in 2009 in order to identify where improvements are needed and suggestion for the management of migration flows and border-related issues of Ukraine. The EU try to ease the visas. For this purpose, %40 of Schengen visas are delivered free of charge under the Visa Facilitation and Readmission Agreements which were activated since January 2008. In 2009 there were 400,000 Schengen visas were obtained whereas 1,100,000 in 2010 by doubling the figure. This is an indication that further improvements require on visa issue for mobility purposes (Klimkin, 2011). A Strategic Co-operation Agreement was signed between the EU

and Europol at the EU–Ukraine Summit in December 2009 for similar agreements with other neighbours.

In order to facilitate better integration and awareness of the communities ease access should be available for those people who want to travel and explore the others. So, negotiations have taken places during 2009 and 2010 aiming to increased air traffic, new and more flight connections, entering new airlines on the market and finally more choice and cheaper prices for passengers.

There were attempts to improve in energy cooperation, leading in December 2009 to the approval of Ukraine's accession to the Energy Community Treaty, pending adoption of a gas law in line with the EU *acquis*. Relating to Environment in February 2010 the Prime Minister of Ukraine signed a draft national environment strategy up to 2020. Ukrainian higher education reform process underwent by the principles of Bologna Process. Through Erasmus Mundus grants 452 Ukrainian students and academics pursued studies in EU universities for up to three years in 2007-2009. On the health issue, the EU's Civil Protection Mechanism (MIC) and bilateral assistance were mobilized following the outbreak, in October 2009, of severe respiratory diseases and influenza A (H1N1). Ukraine participates in EU health committees with the member states of Europe. The EU facilitates Ukrainians' familiarity of the EU through accepting research projects. In July 2009 Ukraine formally expressed its interest in association to EU's 7<sup>th</sup> Framework Programme. So, the numbers of submitted applications increased and those projects funded a total of €8 million for the period up to the end of 2009.

The EU stated that some of its neighbours have made in economic and political reforms. Even some of the neighbouring states have made the Action Plans the centrepiece of their domestic reform strategies and international financial institutions (IFIs) are also aligning their policies with them. Nevertheless, poverty and unemployment, mixed economic performance, corruption and weak governance remain major challenges in most of neighbours. The younger generation, are often faced with bleak personal prospects; "Frozen conflicts" and recent events in North Africa and South Western Asian Countries (the Middle East) and Southern Caucasus remind the world community that the conditions for peaceful coexistence remain to be established. There are major challenges ahead between some of EU's neighbours and with other key countries in their respected regions. These are not only the EU's neighbours' problems. They consists risk producing major spillovers and challenges for the EU, such as illegal immigration, unreliable energy supplies, environmental degradation and terrorism.

Regional and global disturbances creates an indication that the ENP had to be strengthened, in order to avoid potential cost of failing to support its neighbours in their reform efforts will be much more than expected at present. Therefore, the EU must present attractive political and economic offers to its ENP partner countries. These should include offering them improved trade and investment prospects, making people-to-people contacts and legitimate short-term travel easier, being more active in

addressing honest and fair on frozen conflicts, and opening more possibilities to mobilise funding. The EU must help those neighbouring countries who are willing to reform to do this faster, better and at a lower cost to their citizens and beyond. It must also provide more incentives and convince those who are still hesitant on the policies and intentions of the EU within the ENP framework.

#### **4. INTERNATIONAL CONSEQUENCES OF THE EU POLICIES IN THE REGION**

Ukraine's foreign relations with some of the EU members are an indication of the past and future relations within the EU and other powers in the region. Germany is a keen supporter the country's transition to democracy and a market economy and its efforts to move closer to Europe (Fulbrook, 2002; Krockow, 1990). There is regular political exchange between Germany and Ukraine in recent decade or so. Germany's federal states, cities and municipalities, universities and schools as well as private associations and individuals are also strongly involved in bilateral relations.

Germany is one of Ukraine's most important trading and investment partners. In its trade with Germany, Ukraine records a marked deficit. German foreign direct investment, operating at least with a 1,000 German firms, in Ukraine totals approximately \$7.4 billion. Acting on behalf of the Federal Ministry of Economics and Technology, a German Advisory Group has been advising the Ukrainian government on questions of economic and social policy. Germany is the Ukraine's third largest bilateral donor, after the United States and Canada.

There was also cooperation in the judicial sector and on human rights issues. Germany supporting Ukraine's efforts to build a sound and stable state based on along the Western lines particularly on criminal procedure, constitutional and administrative law. To this end, the German Federal Government funds legal advisory and multilateral projects in Ukraine such as the Organization for Security and Co-operation in Europe (OSCE).

To bring the Ukrainians in the line with Europeans 'the Federal Foreign Office supports human rights projects in Ukraine, which are implemented by Ukrainian non-governmental organizations'. On cultural effects and cooperation the German-Ukrainian Agreement was signed in 1993. According to German Foreign Office, there are currently 9,000 Ukrainians studying at German universities. In addition to this 1,000 Ukrainian students are awarded DAAD grants and scholarships every year and more than 160 university cooperation arrangements were established between them. These German educated Ukrainians will be expected to establish and enhance strong connection from Germany to Ukraine for the coming decades. There are also other cooperation such as in science and technology which also contribute to cultural effect and attraction of Germans on Ukrainians.

One of the soft power elements would be the minorities as potentials for direction and manipulation through direct or indirect connections. More than 30,000 German descendants living in Ukraine as called “German minority” by the German authorities. They are organized in various groups and associations which were directed and united under the umbrella of the Council of Germans in Ukraine. This is a German culture effect bounty with its history in Ukraine.

Political relations between the Federal Republic of Germany and the East European Republics such as Moldova and Belerus are the same degree or more on the process of intensification of relations similar to Ukraine. In relations with Belarus, Moldova and Ukraine Germany and the EU members are increasingly pinning their hopes on isolating those responsible for the repression and supporting civil society and the democratic forces in Eastern Europe. The EU and its members restrict political relations with Belarus until progress has been made in terms of democracy, human rights and the rule of law.

Romania, on the other hand, similar to those members in the EU, try to develop its bilateral relations not only with the Republic of Ukraine but also Moldova and Belarus. Romanians claims that the relation to their neighbours derives from the communion of history, language, traditions and culture. Consequently, Romania desires its neighbours closely interconnected with the Union first and foremost for itself, then neighbours and subsequently for the EU. To this desired end, Romania expects Ukrainians’ should maintain its European perspective and aspirations which will be as a key element to consolidate the regional stability and further progress.

Romania and particularly regional EU members are keen to make the Black Sea Synergy are workable and effective instrument for their foreign policies. The Black Sea Synergy was initiated in 2007, under the German presidency of the EU, which was officially launched on 14 February 2008, in Kiev. The main arguments for the EU to adopt the initiative were linked to the Eastern neighbourhood and its strategic position to various places. These includes the important connections to Central Asia, the Middle East, but also to the Western Balkans, the great potential to develop energy, transport and commercial routes, and the high relevance of issues like environment or democracy. It is also expected that it would build up cooperation in democracy, human rights, good governance, border management, protracted conflicts, energy, transports, environment, maritime policy, fishing, migration, education, research and development in the Black Sea region. In order to make more effective for Romania, Romanians are actively committed to the implementation of the Synergy through the development of a sectoral partnership on environment, which was launched on 16 March 2010, in Brussels.

Romania actively seeking an effective synergy in the Black Sea by initiating the Black Sea NGO Forum in fruitful partnership with the Federation of Nongovernmental Organizations in Romania (FOND) and the Black Sea Trust. Through these initiatives Romania highlights the importance of moving on to a straightforward, concrete delineation and complementarities between the principles

of implementation of the Black Sea Synergy and the multilateral dimension of the Eastern Partnership along the line with the EU expectations. These two European initiatives are now in the phase of implementation of the projects and the recommendations proposed in the networks established under their aegis, both at regional and macro-regional levels.

Romanians' status as an EU and NATO member and the vicinity of the Western Balkans render necessary a special relationship between Romania and those states. Therefore, supporting the European and Euro-Atlantic path of the Western Balkan states and the Black Sea region will be benefit of those involving states. Perhaps the above policies should be categorised as liberal policies as it is indicated in International Liberal theory assumptions.

## CONCLUSIONS

The recent developments within and in neighbouring regions of the EU force the policy-makers of the EU rethink of its eastern neighbourhood policy. The EU had to reconsider its neighbourhood policy with a clear credible membership perspective, and assist to resolve those existing and frozen conflicts within and neighbouring countries. Ukraine should be one of the first primary goals to achieve such policy due to a number of reasons.

The EU had a strategy to make its neighbours familiar and Europeanised with the policies invented by the ENP framework. The instruments were/are used/use EU Money, trade opportunities, friendly nudging, cultural activities, scientific cooperation, educational exchanges and sportive event and so on. The EU preferred the region Europeanised and sensible to the EU but not necessarily within the EU. They should rather remain outside but related- and of the EU. The neighbouring countries should become as like its EU members. They should contain certain specialities as liberal, democratic, internationalist, law-abiding and peaceful for themselves and for the EU. These neighbours might be examples for further relations with the neighbours' neighbours.

The EU derives most of its 'soft power' in the East from offering the prospect of the EU membership to the regional as well as others in other regions. The EU every available opportunity pressurising the neighbouring countries and beyond by making EU's High Representative's statements on curtain matters to make to the targets familiarise with the EU standards and values. This is also another indication how EU institutions are involving with the targeted states. Policy changes and related public statements were made by the EU officials for the realisation of the EU policies. Nevertheless, the acceptance and implementation of the EU required changes will determine the outcome whether the EU was successful in its soft policy or not. It is general hope that the ENP and "Eurosoft power" will help to flourish better life standards and peaceful coexistence for decades to come.

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# THE SOFT POWER SOURCES OF THE EUROPEAN UNION: CHALLENGES AND OPPORTUNITIES

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**Abstract:** *This article argues that due to the uniqueness of the European Union as an international actor, its soft power sources, as conceptualized by Joseph Nye (2004), pose specific challenges, but some exceptional opportunities as well with regard to the Eastern neighbourhood. Therefore, the soft power sources, identified as “culture”, “political institutions” and “foreign policy” (Nye, 2004) are explored in the case of the EU. Firstly, although it is difficult to refer to a “European culture” that can inspire a “European dream” abroad, the European cultural diversity becomes an asset as the countries in the Eastern neighbourhood are in transition to democracy. Secondly, the European institutions constitute a highly prized soft power source due to the identification of the EU with innovative structures such as the European Commission or the European Parliament. Nevertheless, the “neighbour partner” status is regarded as downgraded in comparison with the “candidate country” position, as the former rank means restriction on the full usage of the European political framework. Last but not least, the EU foreign policy is another well regarded soft power source, but evaluated at times as being too “timid”. This deductive approach uses the method of discourse and official documents analysis.*

**Keywords:** soft power, culture, political institutions, foreign politics, Eastern neighbourhood.

## INTRODUCTION

Nowadays “smart power” means a compulsory strategy in international affairs. It comprises the balanced combination of hard and soft power. This article discusses the challenges and opportunities that the EU soft power sources pose. Although the EU is a unique international affairs actor, it presents similar soft power resources as states. Firstly, the concept of soft power is analysed presenting its meanings and usefulness in international relations research. Secondly, soft power sources including culture, political values and foreign policies are debated emphasizing specific challenges and opportunities within the framework of the European Neighbourhood Policy. Specifically, the Eastern Partnership is referred to here with the following countries: Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine.

## 1. THE CONCEPT OF SOFT POWER

Nowadays the term “soft power” is largely integrated in the foreign policy discourses and research despite the controversy over its meanings and utility. This section presents the connotations of the term and considers the efficiency of the phenomenon it refers to. In addition, it discusses the applicability of the concept to the European Union.

The term “soft power”, as developed by Joseph Nye (2004), refers to the ability to shape the preferences of international relations actors through a combination of inducement and attraction. This form of power is presented as complementary to the “hard” one, but different in terms of “behavior and tangibility of the resources” (Nye, 2004, p. 7). Therefore, the soft power is evoked by the metaphor of “a dance requiring partners” (Nye in *Rapid-growth markets soft power index* 2012, p. 5). This type of power is also named “intangible” as it rests on a sense of attraction, love or duty and appeals to shared values. The “dance” metaphor also catches the effect of agenda setting as an important element of soft power. “Smart power” represents an “approximate mix and application of the two” (Kounalakis and Simoyi, 2011). Nevertheless, the soft power is defined positively as “the ability to get what you want through attraction rather than coercion or payments” (Nye, 2004, p. x). Specifically, the soft power is at work through economic enticement and diplomatic persuasion.

The definition of power is losing the emphasis on military force and material resources as the subtle ability to influence the behavior of international actors (soft power) is gaining ground. Still, certain scholars dismiss soft power as “merely the influence of Coca-Cola and blue jeans“. According to Nye (2004), this is a case of misunderstanding or trivialization of the phenomenon.

According to Markos Kounalakis and Ambassador Andras Simonyi (2011, p. 14), power in international relations is to be seen as “spectral- with hard-hard power on the one hand, and soft –soft power on the other hand”. Moreover, soft power represents “a form of meta-power” (Gallarotti, 2011, p. 11). This means that the power relations are developing within the context of international social relations and interaction. Thus, the Constructivist and Neoliberal paradigms are the most suitable framework of analyzing the conceptualization of soft power as “a form of meta-power”.

The military force is still the ultimate form of power in the contemporary anarchic and self-help international system, but the technological innovations in the communication field and the international institutional framework created new opportunities of using intangible power. Also, the American Center for Strategic and International Studies Commission on Smart Power (2007, p. 10) emphasizes that “an extra dollar spent on hard power will not necessarily bring an extra dollar’s worth of

security”. Therefore, it was acknowledged the vital role of soft power in “winning the hearts and minds” in counter-terrorism activities.

Although the soft power concept was born in the US to describe the soft face of the American power, the EU’s soft power is evaluated as being an example for all international actors. In a keynote speech Benita Ferrero-Waldner (2007) referred to the current international system comprising threats such as international terrorism, climate change and migration. The European Commissioner for External Relations and European Neighbourhood Policy stressed that smart power is best suited to respond to the changing configuration of threats and alliances. Nevertheless, Ferrero-Waldner (2007) recognizes that the “EU has reaped tremendous rewards from its soft power” and that the “soft power is the key to strengthening alliances with China, India and new emerging markets”.

## **2. EUROPEAN UNION SOFT POWER SOURCES**

This part presents three soft power sources as identified by Joseph Nye (2004) and discusses them in relation to the European Union and its Eastern Partnership. Although Nye’s (2004) soft power conceptualization focuses on states and particularly on the American case, a discussion about the European Union soft power sources is suitable in order to stress new perspectives on EU activities.

### **a. European culture**

It is said that Jean Monnet, one of the architects of the united Europe, remarked at the end of the European construction that if he had to start anew, he would begin with culture instead of economic and political life. If the question is whether there is a common cultural foundation to be found in the public opinions of the populations of Europe and not only, then the answer is a conditional one (Arts *et al.*, 2003, p. 69). On the one hand, if one considers the concept of culture as a unified whole, then the answer is negative. On the other hand, if one does not place stiff requirements to the concept then the answer is affirmative (Arts *et al.*, 2003, p. 69).

Culture as “a set of ideas, beliefs and ways of behaving of a particular organization or group of people” (Macmillan Dictionary 2013) is usually considered on two levels, the high culture (literature, art, education) and the popular one (mass entertainment). Still, the EU operates with a broad meaning of the concept of culture as the “basis for a symbolic world of meanings, beliefs, values, which are expressed in language, art, religion and myths” (European Commission to the EU Parliament and Council 2007, p. 3).

In 1970s the European Community started to develop a cultural framework through the European Regional Development Fund which offered infrastructure and investment for cultural projects. During 1980s, the cultural field advanced on the European Community agenda. The Treaty on the European Union (TEU) (1992,

Maastricht, amended in Amsterdam in 1997) states: “The Community shall contribute to the following of the cultures of the Member States, while respecting their national and regional diversity and at the same time bringing the common cultural heritage to the fore” (TEU, Art. 151, 1).

The importance of culture as a driver of change in society was recognized in the very first EU documents on cultural activities, specifying that culture is “everyday culture; this broadening of the definition is a consequence of the fact that culture is no longer considered a subsidiary activity, but a driving force in society, making for creativity, vitality, dialogue and cohesion” (EC Communication 1998, p. 3). Also, one particular European Commission communication to the Parliament and to the Council (Pantel 1999, p. 49), states that Europe’s cultural identity is nothing less than a shared pluralistic humanism based on democracy, justice and freedom”.

This statement is of particular importance when referring to the EU’s Eastern Partnership and the soft power it exerts on the 6 countries concerned (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine). Although the Eastern Partnership means foremost deep and comprehensive free trade agreements in order to gradually integrate in the EU economy, the political reforms agenda is also a key point of this partnership. Intercultural dialogue and tolerance are basic values on which the EU soft power is based. They are of particular interest to countries with separatist regions such as Georgia and Moldova.

All in all, the EU discourse on the cultural issue emphasizes the intention to avoid the homogenization of the national cultures, but turning the European culture into “a culture of cultures” (European Community in Pantel 1999, p. 51). Therefore, it is very difficult for the EU to promote a common European cultural identity abroad as it still finds itself in the process of forging this process internally. For Europeans and foreign tourists alike, The Eiffel Tower is a French symbol and not a European one. Pantel (1999, p. 47) offers a solution for this matter by approaching the EU and its cultural policy “not as a nascent super-state, but as a new kind of policy-in-the-making”. Still, the EU’s recognizable symbols follow the logic of the national ones, comprising a European flag of 12 stars in a circle symbolizing the ideals of unity, solidarity and harmony among the peoples of Europe, a European anthem coming from the Ninth Symphony composed in 1823 by Ludwig Van Beethoven and a Europe Day on 9 May. Also, programmes such as The European City of Culture or ERASMUS are meant to promote unity through diversity by increasing consciousness of particular identities and their contribution to the larger European whole.

Barnet (2001, p. 5) supports the idea that by promoting cultural unity and by projecting cultural diversity, “there has been a shift in the EU policy-making from conceptualizing culture in primarily symbolic terms to conceptualizing culture in governmental terms”. Therefore, the affective European identifications of citizens became strategic calculations. The argument presented by Barnet (2001) is best

illustrated by the saying “Americans felt Americans and they created the United States of America while Europeans created the EU in order to feel Europeans”.

The dialectic of diversity and unity comprised in EU’s motto “Unity in diversity” characterizes the dynamic of the opportunities and challenges faced by Europe in the process of forging a cultural identity. Yet, the central objective of the cultural policy is to balance diversity and ordinary. Since 2007 the European Union and the national authorities have been following the “European Agenda for Culture” meaning promoting “cultural diversity and dialogue, culture as a catalyst for creativity and innovation culture as part of the EU’s international relations” (European Commission 2013).

### **b. The European Union’s political values**

The European construction is recognized as atypical as it cannot be considered a state or an international organization. As a result, its political values and organization are innovative, but too complicated and useless for Eurosceptics. Generally, the EU is considered as a distinctive post-national with a value-based political system. The European Commission and the European Parliament are specific innovations in international relations. The EU political framework is difficult to grasp, but it is widely viewed as ingenious by political analysts.

EU is the winner of the Nobel Peace Prize 2012 for advancing the causes of peace, reconciliation, democracy and human rights in Europe. The impressive achievement of transforming Europe from a continent of war into one of peace was indeed recognized. The prize came at a time of grave economic difficulties and considerable social unrest and it is considered a reminder of the EU’s most important result: reaching peace and reconciliation.

The political values of the European Union compose a strong source of soft power, but in the context of the European Neighbourhood Policy (2003), it must be reminded that this policy was designed as a policy of non-membership, even if it was conceived by those who are responsible for enlargement. Still, these policies share many similarities in their origins, principles and methods. Nevertheless, as distinct from the strict conditionality applied in the context of enlargement, the Union has preferred a more flexible form of conditionality in the ENP. In this respect, the lack of conditionality severity reinforces the argument in favor of the EU as a soft power. Romano Prodi (2002) presented the project of the ENP stating that the EU should share “everything but institutions”. Also, the EU should extend to this region “a set of principles, values and standards which define the very essence of the European Union” (Prodi, 2002). Therefore, the neighbours do not share the EU institutions, but they can share the EU identity and interests. Campain (2008, p. 7) refers to the process envisaged by Prodi as “external governance”, meaning the fact that, in order to manage its external relations the EU created an extension of the legal boundaries of the EU by the spreading of European standards and norms in its direct

environment, while stopping the institutional boundaries of the EU as tierce countries do not form part of the institutional framework of the EU.

If one is to compare the 2012 ENP Strategy, the Country Reports and the ENP Action Plans, the common policy reference point is that of shared values. Laïdi (2008, p. 15) considers that “the ENP actually constitutes a very classic semi-periphery control policy that aims to set up a virtuous circle encompassing development, democracy and good governance so as not to jeopardize Europe’s security and stability”. Nonetheless, Bosse (2008, p. 44) aims to find out whether “shared values” within the ENP is political rhetoric or they are indeed institutionalized and consistently with the policy strategy. Bosse (2008, p. 53) concludes that early ENP policy drafts and Country Reports contain a greater emphasis on “shared values” as well as signs of the development of a clearer and more consistent definition of these values along the lines of the Copenhagen political criteria. Still, the ENP Action Plans lack the rigour and precision with which political values are emphasized in the Country Reports. Bosse (2008, p. 53) accounts that the negotiations of the ENP Action plans were conducted in an intergovernmental setting and short-term security interests of the Member States in stability (fight against corruption, organized crime and terrorism) dominated concerns over the abuse of fundamental rights and freedoms).

### **c. The European Union’s foreign policy**

The interest in EU’s global role has increased the in recent years, both among policy-makers and academics. In the nowadays international system, the EU is widely regarded as a “civilian-normative power” (Kagan 2004, Manners 2002). Pre-1945 Europe was an aggregation of individual powers that created the first international organizations and promoted norm worldwide. In the post 1945 period, Europe had limited geopolitical influence following the rise of American power.

The metaphor stating that “on major strategic and international questions Europeans are from Venus whereas Americans are from Mars” is attributed to Kagan (2004, p. 7) arguing that “Europe is turning away from power or, to put it a little differently, it is moving beyond power into a self-contained world of laws and rules and transnational negotiation and cooperation”. In the aftermath of Iraq invasion (2003), the EU was highly praised for its reluctance to participate in the Iraq war.

Still, Laïdi (2008, p. 10) argues that the EU is inclined to promote norms on the world system in order to counter two difficulties. Firstly, in the face of new emerging powers and the compelling power of USA, the EU seeks to promote European norms in order to avoid a comparative advantage. Secondly, the EU uses norms as a means to compensate for its lack of hard power as the reluctance in creating a common European security force persists.

Manners (2002, p. 242) identifies five core EU norms of the broad normative basis developed over the past 50 years through treaties, policies, declarations etc:

“centrality of peace”, “liberty”, “democracy”, “rule of law” and “human rights”. The scholar also places them in historical context stating that peace and liberty are defining features of west European politics in the immediate post-war period (Manners 2002, p. 247). Furthermore, the norms of democracy, rule of law and human rights grew later in order to distinguish democratic Western Europe from the communist Eastern Europe (Manners 2002, p. 13).

Although the EU is predisposed to promoting norms in international affairs due to its normative basis, the farther the norms are promoted, the more they run the risk of non-compliance. In practical terms, the EU must clarify and toughen norms that it exports whenever it meets situations in which the dissemination of norms is highly important Laïdi (2008, 14). This is the case of Eastern enlargement (2004 and 2007) with the 1993 Copenhagen Criteria as its basis.

The International Development Policy is another part of the EU External Relations that is highly praised. More than half the money spent on helping poor countries comes from the EU and its member countries, making it the world’s biggest aid donor (EU Development Policy, 2013). The partnership between the EU and the developing world is based on the normative principle of solidarity.

## CONCLUSIONS

This article has argued that because of its particular historical evolution, configuration and policies, the EU soft power sources pose specific challenges but also particular chances. Firstly, the concept of “soft power” has been examined in order to specify its meanings and to emphasize the working definition of this article. Nye’s conceptualization (2004) is the working definition for this article as it offers a comprehensive view of the phenomenon. The soft power sources are identified in a state’s culture, political values and foreign policy. An analysis of the European Union is necessary in order to stress the challenges and the opportunities its soft power sources confine.

It is difficult to forge policies to promote the “European culture” abroad as the “American dream”, the best worldwide American universities, Hollywood etc. render the US with exceptional soft power leverage. The Neighbourhood policy comprises inclusive as well as exclusionary elements, creating a strong tension within the policy itself. It is still not clear whether the EU can promote reforms in its Neighbourhood without offering the membership carrot. Still, the EU is generally regarded by the populations of the countries in the Eastern Partnership as a model for their democratic transition.

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## SOFT POWER: CASE OF THE EUROPEAN UNION

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**Abstract:** *Due to its unique nature and particular history of development the European Union is usually said to be a sui generis actor in the international arena. Its uniqueness is reflected first of all in the fact that by its character the EU is somewhere between a state and supranational organization. This particular feature has led to the second important factor – the way how the European Union acts in the international affairs. Its main strengths lie in the non-military spheres – economy, culture, values and norms. This behavior of the EU led to its close association with a term ‘soft power’. The problem is however in the definition of soft power, especially in relation to the European Union. The term coined by Nye became quite popular and catchy, and therefore widely misused. This paper will first of all discuss the concept of soft power. Second it will look at the notion of the EU actorness and how soft power can be applied to it. Finally it will briefly look at the place of soft power at the ENP.*

**Keywords:** soft power, actorness, European Union, ENP.

### INTRODUCTION

Due to its unique nature and particular history of development the European Union is usually said to be a sui generis actor in the international arena. Its uniqueness is reflected first of all in the fact that by its character the EU is somewhere between a state and supranational organization. This particular feature has led to the second important factor – the way how the European Union acts in the international affairs. Its main strengths lie in the non-military spheres – economy, culture, values and norms. This behavior of the EU led to its close association with a term ‘soft power’. This notion is however often misused and quite vague. This paper starts with an account of what soft power is and then proceeds with an attempt to merge notion of soft power and ideas about the European Union actorness, especially in the area of ENP.

## 1. WHAT IS SOFT POWER?

The idea of soft power was introduced by Joseph S. Nye. He defined it as an “ability of a country to structure a situation so that other countries develop preferences or define their interests in ways consistent with its own” (Nye, 1990, p.168). It is opposed to the other types of power that are used as a “stick” or a “carrot”, either to coerce or bribe other actors to change their position and do something they would not do otherwise. In other words soft power it is as an ability to persuade or attract other actors so that they will change their preferences and therefore their behavior. This persuasion and/or attraction are not based on the threat of hard power invocation. Simultaneously actor shouldn’t be attracted by the promise of some benefits.

The notion that power is multidimensional and not necessarily reflects military or economic might of the state appeared before Nye. As early as 1962 Edward Halett Carr differentiated between economic power, military power and power over opinion (Carr, 1962, p.108). Later John Kenneth Galbraith also described three types of power:

- “Condign” power – ability to make actor abandon its preferences by linking them to a sufficiently unpleasant alternative.
- Compensatory power – ability to make actor do something by offering him sufficient reward
- Conditioned power – ability to make actor do something by changing his believes (Galbraith, 1983, pp.4-5).

The idea of soft power is becoming more important given the changing nature and understanding of power in general. It used to be simply represented in military terms, and at some point of history this would be really accurate. The end of the Cold War however signified the end of this era (though the signs of the changing nature of power were present before). It is not enough anymore to have a large army and complicated military techniques to exercise influence over other countries. Other methods like economy, cultural attraction gained more and more influence for the policy makers. Significant progress in informational technologies was a crucial factor in this development as well. As Janice Bially Mattern notes, soft power became a feasible part of the state’s foreign policy due to the fact that communication became incredibly cheap (Mattern, 2007, pp.101-102).

Nye also points out the important difference between “three faces of power”: “commanding change, controlling agendas, and establishing preferences” (Nye, 2011, p.11). Hard and soft power fit all three of them; the trick is to understand which one is actually in play.

According to Nye soft power is a “descriptive, rather than a normative, concept” (Nye, 2011, p.81). It doesn’t presume that only ethically correct and “good” values can be attractive. At the end of the day great dictators like Stalin and Mao

exercised a great deal of soft power along with coercive military and economic ones, and a big army can be as attractive as a big economy.

Main resources for the soft power are culture (that is attractive to others), political values (when actor lives up to them not only in domestic, but also international arena) and foreign policies that are seen as legitimate and moral (Nye, 2004, p.6). At the same time it is not at all that easy to distinguish between hard power and soft power resources. Hard power and soft power “are related because they are both aspects of the ability to achieve one’s purpose by affecting the behavior of others” (Nye, 2004, p.7). In other words it is sometimes hard to put a clear distinction between two types of power. “Soft-power resources are the assets that produce...attraction” (Nye, 2004, p.6), but it is hard to say (and Nye acknowledges it) what at the end of the day will be able to attract public or policy makers. The fact that most of the resources can be basis for both types of power complicates matter further. For example economic resources, as Nye notes “can produce both hard- and soft-power behavior. They can be used to coerce as well as attract” (Nye, 2007, p.165). On the other hand resources that are clearly marked as soft-power ones can fail to produce expected soft-power behavior. It seems therefore that the distinction between hard and soft power is contextual and depends on many other variables.

Nye specifies three clusters of qualities that are “crucial for converting resources into [soft] power behavior”, these are benignity, competence and beauty (charisma) (Nye, 2011, p.92). In other words actor has more chances to be listened to if it is unbiased, expresses benign intentions, explicit knowledge of the matter and is attractive in one way or another.

Another point is that, it is difficult to demonstrate the short term effect of soft-power instruments (Nye, 2010, p.9). Hard power (either military or economic) yields results quicker, and they are more easily observable. Results of the soft power application need time to appear and become noticeable. Layne argues in this vein that actually in the realm of high politics soft power is unable to have influence, because decision-makers in this sphere are more than usual insulated from the public opinion (Layne, 2010, pp.56-57). It was also shown by several researches that general public doesn’t usually have strong opinion about matters of foreign policy, and it is actually shaped by elites (Hellstroem, 2008, p.1139). Nye response however was that the decision-makers can be affected by soft power as well as the public opinion (Nye, 2010, p.218). This relationship is also hard to show directly. It is true that many of the authoritarian leaders are fond of American culture and Hollywood films, but nevertheless seem to be unmoved in their values or policies. However there are some cases, when the influence of soft power on decision makers can be traced. Good example is Mikhail Gorbachev who as evidences show was influenced by his senior adviser Alexandr Yakovlev who grasped the liberal ideas from West and was the main promoter of the ideas of *perestroika* and *glasnost* (Nye, 2010, p.218).

It is also true that in the real world there is probably no such thing as a sheer hard or sheer soft power. Foreign policy of the country usually combines both in different proportions and with different success. To describe this combination Nye coined out the term “smart power” – “strategies that successfully combine hard and soft power resources” (Nye, 2010, p.218). The key word here is “successfully”. It serves as a reminder that while probably all countries combine hard and soft power in one way or another, not all of them can do it in the way that will yield positive (for them) results.

Soft power became a very popular concept among the academics and politicians, but at the same time it drew a lot of criticism. Edward Lock stated that the idea of soft power is very ambiguous and has “a number of significant conceptual problems” (Lock, 2010, p.34). In particular Lock notes that in different works Nye varies between two distinct accounts of soft power: first that it can be used as an instrument to changes other actors’ values; second, that it is aimed at changing in the politics of other countries and not necessarily their values (since values are said to be assets only if shared by others) (Lock, 2010, pp.34-35).

Christopher Layne offers more realist critique of the Nye’s notion. He posits that if the target of the soft power is state it is hard to show its impact. He argues that states can not be compared to individual decision makers and that there is little or no evidence at all that states make decisions based on the fact that they “like” some other state (or decision makers of that state) and not on their national interests. Layne also agrees with Lock that the very definition of soft power is not clear and has expanded with years (Layne, 2010, pp.53-58). Indeed, the attempts of soft power application in the literature show big variety in the understanding of the concept. Andrei Tsygankov in the analysis of Russian foreign policy, defined sources of soft power as “political legitimacy, economic interdependence and cultural values” (Tsygankov, 2006, p.1081). Such definition is broader than original Nye’s. Tarik Oğuzlu defined soft power through the use of civilian, economic and normative instruments, contrasting it only with sheer military power of coercion (Oğuzlu, 2007, p.83). Peng Er Lam and Shogo Suzuki in their analyses of Japanese and Chinese use of soft power looked at the concept mainly through cultural lenses (Lam, 2007; Suzuki, 2009). Sheng Ding noted that within Chinese academia there is a tendency to find the analogues with soft power in the Chinese history and works of great Chinese thinkers and strategists (Ding, 2010).

Another line of critique is concerned with mechanisms of soft power employment. Layne notes that they are at least “fuzzy” (Layne, 2010, p.54). Bohas writes that Nye concentrates on the result, the effect that soft power has on people in other countries, but doesn’t analyse how this effect is achieved, or what mechanisms are in play (Bohas, 2006, p.410). This problem makes it hard to operationalize the notion of soft power, and make it close to impossible to fulfill the call for devising the “smart strategies” that Nye makes (Nye, 2007, p.165).

Absence of clear definition just adds more to the confusion about the very idea of soft power. Reflecting this confusion Layne doubts whether the notion of soft power has any value added at all since it uses the ideas that already appeared in the theoretical schools of institutionalism, the democratic peace theory and constructivism (Layne, 2010, p.54).

Nye proposes two models of soft power in action – direct and indirect one. Direct model assumes that leaders of the countries change their policies and actions after being affected by attraction and/or persuasion exercised by other leaders. In the indirect model soft power of the actor influences public and third parties that in turn are able to affect the leaders of other countries “by creating an enabling environment for decisions” (Nye, 2011, p.94). To trace the effect of soft power in both of these models according to Nye “careful process-tracing of the sort that good historians or journalists do” is required (Nye, 2011, p.94).

Matthew Kroenig, Melissa McAdam and Steven Weber propose more elaborated model of soft power operationalization. They theorize that for the effective application of the soft power states must “communicate to an intended target in a functioning marketplace of ideas, persuade the target to change its attitude on a relevant political issue, and ensure that the target’s newly held attitude influences international political outcomes” (Kroenig et al., 2010, p. 413). Therefore successful application of the soft power is happening when the states “communicate through credible and attractive sources, deliver a repeated message that speaks to the recipient at an emotional level, and target recipients that are open to communication” (Kroenig et al., 2010, pp. 415-416). At the same time the trustworthiness of the source of the message is undermined if it is perceived as having “direct stake in the matter at hand” or “message of the soft power campaign clashes with material interests of the target audience” (Kroenig et al., 2010, pp. 415-416). Kroenig et al. use two case studies of soft power application with one of them treated as failure and second as success. They claim that in Iraq in 2003 the US failed to be seen as credible messenger and the ideas it tried to bring to this Middle Eastern country clashed with core material interests of local people (namely the desire to be self-governed, not occupied). On the other hand the democracy promotion in the post communist countries of the Eastern Europe can be seen as success. In this case the US acted in the functioning marketplace of ideas, was perceived as credible messenger and what is important the ideas that it promoted were adopted and implemented (Kroenig et al., 2010, p.422).

## **2. EUROPEAN UNION – WHAT KIND OF POWER IT IS?**

### **a. Actorness of the European Union**

European Union is not a classical Westphalian state, but a number of states that pooled their sovereignties in several areas together. Jacques Delors once called it “*objet politique nonidentifié*” (Schmitter, 2000, p.20), several decades later Björn

Hettne defined it as a “regional institutionalized polity” (Hettne, 2010, p.16). Vivien Schmidt proposed to call the European Union a “regional state” – “a regional union of nation-states in which the creative tension between the Union and its member states ensures both ever-increasing regional integration and ever-continuing national differentiation” (Schmidt, 2004, p. 976). The concept of the regional state captures both state-like features of the Union and those that make it different from a traditional notion of the nation-state: the fact that its members are nation-states, the fuzziness of its end borders and the variability of the member states participation in policies and cooperation areas. Looking at the EU from this perspective helps to define its unique position in the international relations as a union of states and therefore departing from classical Westphalian idea of a nation-state.

The concept of “actorness” in the international relations is important in understanding the foreign policy of the European Union. Frederik Söderbaum and Patrick Stålgren define it as “conscious efforts to shape the external world in accordance with the values, interests, and identity of the actor” (Söderbaum and Stålgren, 2010, p.1). Charlotte Bretherton and John Vogler propose their definition of “actorness”: “it implies an entity that exhibits a degree of autonomy from its external environment, and indeed from its internal constituents, and which is capable of volition or purpose” (Bretherton and Vogler, 2006, pp.16-17). These definitions embrace both exercises of hard and soft power, since “shaping the world” is possible by employment of different instruments. Central for “actorness” is therefore the ability to influence the international arena by any means that can be used. The concept proposed by Söderbaum and Stålgren concentrates only on the process, it doesn’t take into account whether the actor succeeded in its attempts or not. It is also rather broad and can be possibly applied not only to the states but to the nongovernmental actors as well. For example terrorist groups (at least major once like al Qaeda) are definitely making conscious attempts to shape the external world in accordance with their values, interests, and identities.

Joseph Jupille and James Caporaso viewed actorness as having four main components:

1. Recognition – acceptance by the other actors and their willingness to interact with the entity;
2. Authority – legal competence to act;
3. Autonomy – institutional distinctiveness and independence from other actors;
4. Cohesion – ability to formulate and articulate internally consistent policy preferences (Jupille and Caporaso, 1998, p.214).

Different theoretical perspectives offer different accounts on the idea of the EU actorness. Realist tradition in the international relations underlines the idea of statehood and therefore sees the states as primary actors. The non-state actors, such as international organizations, business corporations and non-governmental organizations are all parts of the international system, but “their functions are seen

as essentially subordinate to those of state” (Bretherton and Vogler, 2006, p.16). Central to the realist analysis therefore are the individual European states and not their Union per se. Other schools of thought however assume that states are not the only actors in the international arena and non-state or supranational actors can be of equal importance and definitely have a degree of actorness. Within this theoretical framework John McCormick claims that the European Union is not only an actor in the international relations but a “post-modern superpower” in its own right (McCormick, 2007, p.32).

Institutionalists underline the importance of institutions in the international relations and the fact that they can affect the behavior of states. Summarizing the institutionalist literature Sophie Vanhoonacker noted four ways in which institutions of the European Union can matter in its foreign policy.

First, institutions reflect the level of agreement and common values among the member states as well as their respective power and preferences.

Second, institution as a product of bargaining and agreement on some policies reflect “path dependency”. According to the historical institutionalist approach the agreement once made defines the path for a future development. When one of the several possibilities is chosen, it is usually very costly to change the agreement or institutions that were set up.

Third, institutions and changes that go within them reflect the changes in the political complexity of the European Union itself and ways it interacts with other countries.

Fourth, institutions as an agencies can have profound influence on the way how implementation of certain policies will proceed, and also sometimes on the process of policy making (Vanhoonacker, 2005, p.69).

Within a constructivist framework Bretherton and Vogler describe the EU as an actor “under construction” (Bretherton and Vogler, 2006, p.24). According to them, the degree of actorness in general and the actorness of the European Union in particular is based on the notions of presence, opportunity and capability. Opportunity describes the external environment that consists of events and ideas that influence actor and constrain or improve its ability to act. Presence is the ability of an actor to exert influence on other actors by the sheer virtue of its existence. Capability refers to the internal instruments that are available to an actor and its understanding and ability to use them Bretherton and Vogler, 2006, p.24).

Hettne views the European Union as a regional actor and therefore bases his idea of the EU as an actor on the concepts of regionness, presence and actorness. Presence is viewed by Hettne similar to what Bretherton and Vogler proposed, regionness refers to the degree of internal integration, and actorness is described as an ability to act purposively (Hettne, 2010, pp.15-22). His conclusion is that the performance of the European Union as an actor in the international arena is not impressive. Only one of the proposed dimensions is seen as developing and rather strong – its presence. Other two dimensions - regionness and actorness are in decline

(Hettne, 2010, p.38). Having said this, Hettne does not deny the fact that the European Union is an actor in the international relations. What he emphasizes is the idea that the degree of its actorship is not as high as it could (and should) be.

### **b. European Union as an actor in the international relations**

The uniqueness of the European Union as an entity and its consequent peculiar behavior in the international arena gave rise to the discussion on the nature of this particular actor. Several concepts were coined that were aimed not only at description of the European Union as an actor, but also other states that might have similar traits. Thus Richard Rosecrance has proposed the term “trading state” to describe the increasing power of the economy and trade and possibilities that it gives to states that can harvest them (Rosecrance, 1986).

François Duchêne in seventies coined the term “civilian” power to describe the particular way in which the then European Communities exert their influence. He described civilian power as the “domestication of international relations”, arguing that its influence on the international system should be exercised through such fields as trade and other functional rather than territorial spheres (Duchêne, 1973, p.20).

Hans Maull developed the idea of “civilian power” further by applying it not only to the European Union but to the phenomena of German and Japanese politics. According to him, “civilian powers strive to ‘civilize’ relations between states along the lines of their own, democratic, domestic politics” (Maull, 2005, pp.779-780). His notion of ‘civilizing’ of interstate relations is similar to Duchêne’s idea of “domestication”, meaning bringing “to international problems the sense of common responsibility and structures of contractual politics which have in the past been associated almost exclusively with ‘home’ and not foreign... affairs” (Duchêne, 1973, p.20). He has set three main features that civilian power should have:

- Acceptance of the fact that cooperation is necessary in order to reach international goals and tackle international problems
- Concentration on the economic (and other non-military) means for achieving national aims
- Willingness to develop and work within multilateral (and possibly supranational) structures for addressing international problems (Maull, 1990, pp.92-93).

According to Maull the main sources of the EU influence in the international arena as a civilian power are the perspective of the membership, prospect of association, diplomacy, material and financial incentives, sanctions, organizational and human resources for conflict prevention and state-building missions and the EU’s “post-modern conceptualization of sovereignty” (Maull, 2005, pp.782-784). Maull also underlines that the idea of civilian power doesn’t necessarily mean the total refusal of the military might. It can and will be used by the civilian power, but

in a specific way different from a traditional power: “never alone and autonomously, but only collectively, only with international legitimacy and only in the pursuit of ‘civilizing’ international relations” (Maull, 2005, p.781).

Mario Telò argued for “realistic” understanding of the civilian power (Telò, 2006, p.51). According to his definition: “A political entity can be termed a civilian power not only if it does not intend, but also if it is not able, for various historical or structural reasons, to become a classic politico-military power and pursues its international peaceful objectives using other methods.” (Telò, 2006, p.51). He gives nine reasons why the European Union can be called a “realistic” civilian power:

1. It has stabilized peace in Europe through social and economic integration;
2. The process of European integration was instrumental in producing increasing convergence around the common ground of the “European social model”;
3. The prospect of accession is a significant instrument for the promotion of peace and democratization across the continent;
4. The EU’s influence is being developed through common strategies and partnership agreements with other countries;
5. The European Union equals the United States in terms of economic power and is recognized by many as the second global power;
6. The European Union identifies itself with multilateralism both on the global and regional levels;
7. The EU developed a new dimension in the international relations – interregionalism, which is instrumental for the promotion of the global governance;
8. It has a significant diplomatic corpus;
9. It is increasing its military dimension by participating in peace-keeping and peace-enforcing missions (Telò, 2006, pp.51-57).

While Maull proposes to think of the European Union “as a post-modern ‘force’, rather than as a modern power” (Maull, 2005, p.778), Telò argues that the EU “acts like a power, looks like a power and is an international power, albeit a very particular one” (Telò, 2006, p.57). Maull (along with Hettne) sees EU’s presence as being the main source of its influence. Telò argues that the European Union is capable to exert influence through its actions as well as a combination of hard economic power with a soft one.

Roy Ginsberg proposes to see the influence of the European Union as being produced by both its action and inaction (presence). According to him it is important to look at the degree to which another actor has changed its policy after being affected by the EU’s action or presence (Ginsberg, 2001, p.49). However whenever the actions or presence of the European Union yield positive results it lacks international recognition neither from other actors, nor from its member states (Ginsberg, 2001, p.276). It is partly due to the prevailing state-centric view on the foreign policy and the inclination to look at the actions of states rather than

supranational entities. Partly it is because of the particular civilian character of the EU foreign policy that is unable to yield immediate results and usually don't capture headlines. Therefore it is a difficult task to trace the influence of the European Union and not of its member states.

Ian Manners proposed the idea of the normative power as an addition to the dichotomy between traditional (relying on military might) and civilian power (with emphasis on the economic means). He defined it as a "power that is able to shape conceptions of the "normal"" (Diez and Manners, 2007, p.175). In other words normative power is one that is able to set standards and norms for others to follow. There is an important difference between the concepts of soft power and normative power. While soft power is an empirical concept and basically describes a foreign policy tool, normative power is an explicitly theoretical concept and is "part of discursive practices that are both constitutive and always present" (Diez and Manners, 2007, p.179). Manners and Diez also commented on the difference between "civilian power" and "normative power" approaches by saying that two of them put emphasis on different things. Whereas "civilian power" looks at the material assets and physical power, "normative power" looks at the "power of non-material exemplification found in the contagion of norms through imitation and attraction" (Diez and Manners, 2007, p.178).

The idea of the civilian power was embraced not only by academics but by practicing politicians alike. The then European Commission president Romano Prodi stated that the European Union must become a "global civil power at the service of sustainable global development" (Prodi, 2000).

### **3. SUGGESTIONS ABOUT SOFT POWER AND THE ENP**

Several authors looked at the ENP in the light of possible exercise of soft power. Kratochvil noted that in discursive terms the EU is definitely trying to paint itself as having one at least in the official documents (Kratochvil, 2009). Johansson-Nogués argues that "at least in the ENP area the EU is nothing but a "normal" political force, which doesn't preclude its ability to exercise soft power though (Johansson-Nogués, 2007). Tulmets writes that ENP has at least discursively two soft power features: to act as a pole of attraction for neighboring states and ability to persuade them to comply with EU norms and values. (Tulmets, 2007, pp.205-206) It is interesting to note that all authors agree on one point, namely that if the European Union genuinely wants to use soft power it needs to work on its internal cohesiveness and often appearing discrepancy between stated goals and values and projected interests. These observations also fall in line with what Kroenig et al. suggested about the fact that an actor must be seen as trustworthy and preferably not having a direct stake at the issue at hand in order to exercise soft power successfully.

As it was mentioned above, Nye envisioned two models of how soft power can work – in direct and indirect way. While it is quite hard to measure the direct

influence of soft power mechanisms on decision makers, one can look at how public is influenced by it and therefore at indirect model at work (it is important to notice that public opinion can only be an indicator of the soft power effects, according to Nye, for the indirect model to work, citizens need also to create a “decision-enabling environment”). Therefore it is interesting to look at how the EU is perceived by population of the ENP countries.

The EU Neighbourhood Barometer survey in 2012 presents an overview of the general mood and perception of the EU in the ENP countries. According to it, all in all the EU is viewed positively: 43% and 42% of respondents in the Eastern and Southern neighbourhood countries respectively have a positive image of the European Union (with 38% and 19% being neutral). However, citizens of the Eastern partnership countries generally are more willing to see the EU playing greater role in their states (on average more than half of the respondents hold this opinion). Citizens of the Southern partnership states are less enthusiastic about the EU having greater role in their country affairs (generally less than 40% of respondents) (European Commission, 2012). As Kratochvil noted it might be connected with the fact that citizens of the Eastern countries still have hopes to enter the European Union, whereas citizens of the Southern countries do not see the perspective of an accession as a viable possibility (Kratochvil, 2009, p.2).

The generally positive mood of the citizens of the ENP states may be an indicator that the EU’s soft power is actually reaching its destination. However more research is needed on whether this positive attitude is being transformed into actual decisions by the countries’ decision makers.

## CONCLUSIONS

While the concept of soft power remains vague, several models can help recognize it in action. The concept is however quite often misused in the literature and in official speeches; and it is necessary therefore to understand clearly what soft power is: not just the absence of military power, but the power of attraction, the power to change the preferences of another actor without coercing or bribing it. While such a definition does not make the concept more transparent and easy to use for the analysts, it is sufficiently important to help describe relations between actors in international arena. The application of this term to the policies of the European Union presents a reach field for researchers, with this paper only proposing a direction.

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# EU DEVELOPMENT COOPERATION POLICIES TOWARDS NEIGHBOURING COUNTRIES

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**Abstract:** *In the absence of a strong common foreign and military policy, the European Union has decided to promote itself through means and international actions capable of highlighting its values and development model. One of the means employed by the EU and the member countries is the development cooperation policy used to sustain the improvement of social and economical conditions of developing and transition countries. The aid given by the EU member countries also helped the development of many new member countries and today this assistance should rise by 2015 to 0.7% of the GDP of the member countries.*

*Our paper will focus on the evaluation of the development cooperation policies towards the Eastern neighbouring countries, by evaluating the dimension and the impact of this assistance, but also the donors and their interests. The purpose is to see if the EU development cooperation policy is part of the soft power action of the European Union and if this method is successful in promoting the EU model and assuring the development of the neighbouring countries.*

**Keywords:** development cooperation, neighbourhood policy, international public relations, public policies, European Union

## INTRODUCTION

The European Union represents an organization that attracts by its capacity to ensure development and democracy within its borders. This makes the EU interesting for the neighbouring countries and pushes them to often follow the rules imposed by the European institutions and member countries. In order to integrate the high-class club of EU member states, the neighbouring countries have to achieve a certain level of democracy and development. Nevertheless they are not alone in achieving these results. A means through which the EU helps the neighbouring countries is the development cooperation policy. This economical and political mechanism is designed to contribute to the improvement of the social and economical conditions of the developing and transition countries. In fact the EU is the biggest international donor and together with the member countries has agreed to allocate by 2015, 0.7% of their GDP, to development cooperation.

But does this aid really manages to contribute to the development of the neighbouring countries? In this paper we will try to answer this question by evaluating the dimension of the assistance given to the neighbouring countries but also the impact of the assistance. Our purpose is to see if the European Union manages to truly influence the neighbouring countries by using the EU development cooperation policy and finally conclude if EU's soft power is really producing results.

In order to sustain our argumentation we will start by presenting the development cooperation policy of the European Union by focusing on the neighbourhood policies. Consequently we will present the effects of the development cooperation on the neighbouring countries by studying the impact on the economy and afterward on the social and political climate of the beneficiary countries.

## **1. EUROPEAN DEVELOPMENT COOPERATION AND NEIGHBOURHOOD POLICIES: AN EUROPEAN “SOFT POWER”?**

The promotion of democracy, the respect for human rights, of the rule of law and of the international law represent undoubtedly guidelines for the EU's external action and elementary elements of the identity of the European societies.

The promotion of democracy and the fundamental liberties respond to the Union's internal provisions mentioned in article 6 of the Treaty of the European Union and completed by article 7 by a mechanism designed to sanction the member countries that don't respect these principles.

This shows the clear desire of the European Union to export its values, by pushing more and more its foreign partners to follow the democratic path. In external relations, the article 11 mentions that “the development and consolidation of democracy and of the rule of law as well as the respect for human rights and the fundamental liberties” constitute objectives of the European Foreign and Security Policy.

More provisions of the fundamental treaties come to support this objective. For instance the articles 177 to 181 (Title XX Cooperation for Development) consider the promotion of human rights and fundamental liberties objectives of the cooperation for development and of any cooperation with third countries. Furthermore the articles 179 and 308 give a legal framework for all external actions in the matter of human rights and democratization. The Lisbon Treaty consolidates this tendency by reaffirming the desire of the Union to develop a common action in the direction of the promotion of its values in the world.

Nevertheless, despite the multiplication of these instruments, several authors didn't miss the opportunity to put into question their efficiency. The European Commission reacted by trying to integrate in all the components of its external action the promotion of human rights and democracy.

The assistance for development is financed through the EU budget (around 49.6 billion euros were spent between 2007-2013) and through the European Development Fund (around 22.7 billion euros were spent between 2007-2013). The development cooperation action uses 11 financial instruments. Five instruments are based on the geographical repartition: European Development Fund, the Instrument for Pre-accession aid, the Instrument for developing countries and the Geographical Programs for development cooperation. Four instruments are thematic: European Instrument for democracy and human rights, Instrument for cooperation in nuclear security, Food Facilities and the Thematic Instruments for development cooperation. Other three instruments are designed to answer to different crisis: Instrument for stability, Instrument for Humanitarian Aid and Instrument for macro-financial aid.

The European Union's development cooperation policy is based on the principles established through the European Consensus for Development and by the common declaration of the Council, Commission and the European Parliament. The first principle is that of the political dialogue, seen as an instrument of promotion of the objectives of the European policies. The civil society has an important role in this dialogue and the influence of the public opinion in the EU and the beneficiary countries. The funds are allocated based on the principle of partnership according to which the European Union offers assistance in relation to the efforts of the partner country.

Part of the efforts done by the EU member states to support the developing countries is also done through the European Neighbourhood Policy created in 2004 in order to ensure the cooperation with the neighbour countries. The objective was to promote the values of the European Union outside its borders in order to avoid a segregation of those states and offer them a perspective of integration in the EU. The 16 countries that were integrated in the program are Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, Moldova, Morocco, Palestine, Syria, Tunisia and Ukraine. Six of these countries are Eastern neighbourhood countries.

The policy is mainly bilateral with each partner country and is based on common commitments to common values like the rule of law, good governance, market economy principles, sustainable development or democracy and human rights. In order to push for a deeper political association and economic integration there were also created several regional and multilateral cooperation initiatives: the Eastern Partnership (launched in Prague in May 2009), the Union for the Mediterranean (the Euro-Mediterranean Partnership, formerly known as the Barcelona Process, re-launched in Paris in July 2008), and the Black Sea Synergy (launched in Kiev in February 2008).

The partnerships are based on the respect by the partners of the EU standards in exchange of financial grants given by the European Commission and loans from the European Investment Bank and the European Bank for Reconstruction and Development. Actions Plans are signed by each partner country that set out and

agenda of economic and political reforms for a period of 3 to 5 years. The plans are based on the need of the beneficiary country as well as on the interests of the European Union. Some countries like Belarus, Libya and Syria haven't yet agreed on the Action Plans whereas Algeria is currently negotiating.

Since 2010, the European Union has pushed for the respect of more and more principles regarding democracy and development and has set with extra financial support specific programs for the Eastern (EAPIC) and Southern (SPRING) neighbours. Nevertheless the European Neighbourhood Policy still remains distinct from the process of enlargement even if it is largely compatible. The Neighbourhood Policy is part of the global European Development Cooperation Policy that includes all the aid given to non-EU member countries.

## **2. THE ECONOMIC EFFECTS OF THE EUROPEAN DEVELOPMENT COOPERATION POLICIES**

The European development cooperation action alongside the neighbourhood policies were designed to ensure the promotion of the EU model. In order to achieve this purpose the beneficiary countries have to achieve development by EU standards and the first stage seems to be the economical development.

Nevertheless many studies have been realized and put into question the impact and positive effects of development assistance. A study realized by Petia Kostandinova shows that the EU tends to allocate more funds to the countries that are also important trade partners and that the economic reasons exceed the political needs (Kostandinova, 2009).

On the other hand, an analysis done by Asra shown that the aid has positive but moderate effect on the reduction of poverty and that it is very important that the assistance doesn't exceed the absorption capacity of the country (Asra, 2005). There are in this respect different appreciations on the effect of the aid, Fielding finding positive effects on health, education or fertility (Fielding, 2006) whereas Ferreira, in a study on Tanzania, discovered that educated people benefited more from the aid (Ferreira, 1996). Therefore the initial human capital counts in the use of the assistance.

Another study based on the effects of the assistance on the eradication of poverty based on the definition given by the Millennium Development Goals shows that in fact the aid doesn't generate economic growth or positive effects. Indicators like revenue disparities, average consumption, the minim revenue or child nutrition are nevertheless positively affected. The author of the study concluded that alongside the aid a country has to have good economic policies (Garces-Ozanne, 2009, pp 27-37).

There are also other researchers that believe that global inequality is as normal as the possibilities of interaction and that this is a social and historical reality. William Brown is one of these authors that believe that social development is the

result of the following mechanism: geopolitical pressure generated by a rising interdependence and the need of satisfying the growing needs of the people. Therefore Brown believe that the assistance given is actually contrary to development (Brown, 2009).

In order to answer our initial question according to which the European Union tried threw development cooperation action to promote its values we have to firstly verify the theories mentioned at the beginning of this chapter and demonstrate if the assistance given by the EU generates growth and development. The period of analysis will focus on the period after the creation of the European Neighbourhood Policy in 2004 but will also depend on the data available.

The first critic of the EU's development cooperation policy mentioned that the EU tends to give more assistance to the trade partners. We have therefore compared the development assistance received by all the neighbouring countries and compared it with the trade balance with the EU and the volume of the trade.

**Table 1. European Union trade with the neighbouring countries**

	Period	Algeria			Egypt			Israel			Jordan			Lebanon			Libya			Morocco			Tunisia			Syria					
		B	T	O	B	T	O	B	T	O	B	T	O	B	T	O	B	T	O	B	T	O	B	T	O						
European Union Trade	2008	-12	43	325	4	20	1740	2	25		2	3	737	3	4	1069	-29	41	74	6	22	1451	0	19	374	-73	7	156			
	2009	-2	32	318	6	18	998	2	20		2	2	740	3	4	580	-14	27	41	5	18	929	1	17	502	790	5	208			
	2010	-5	36	198	7	22	592	3	25		2	3	954	4	5	447	-22	36	8	6	21	992	1	20	550	113	7	135			
	2011	-10	45	207	4	23	410	4	29		2	3	959	4	5	432	-8	12	642	6	24	1237	1	20	657	-177	6	4340			
			Armenia			Azerbaijan			Belarus			Georgia			Moldova			Ukraine													
			B	T	O	B	T	O	B	T	O	B	T	O	B	T	O	B	T	O	<b>Legend</b> B = Trade Balance T = Trade Volume O = Official Development Aid										
	2008	0,3	0,9	302	-8	12	235	1	11	110	1	1	887	1	2	297	10	39	617												
	2009	0,3	0,6	525	-5	8	231	2	7	97	0	1	907	1	1	243	6	21	666												
	2010	0,2	0,8	342	-7	12	159	3	9	137	1	1	625	1	2	470	5	28	626												
	2011	0,3	0,9	374	-12	17	293	2	11	127	1	2	549	1	2	451	6	36	749												

*Source:* Trade balance and trade Volume according to European Commission Trade, [http://ec.europa.eu/trade/policy/countries-and-regions/statistics/index\\_.htm](http://ec.europa.eu/trade/policy/countries-and-regions/statistics/index_.htm). Accessed April, 2013.

Official Development Assistance: World Bank (2012a). "World Development Indicators 2012." Washington, D.C.: World Bank. <http://data.worldbank.org>. Accessed April, 2013.

The results show us that most of the neighbouring countries benefiting from the EU development assistance have a negative trade balance with the European Union. The only exceptions are Algeria, Syria and Libya that are exporting to the European Union oil and gas. So we can say that the European Union gives aid to the



*Source:* Gross Domestic Product and Official Development Assistance: World Bank (2012a). "World Development Indicators 2012." Washington, D.C.: World Bank. <http://data.worldbank.org>. Accessed April, 2013.

What we also noticed is that important changes in the official development assistance tend to happen in the cases where special conditions appear in the beneficiary country, like for instance the civil war in Libya in 2011-2012, and these important changes influence a lot the GDP in the years to come.

The analysis of the economical impact of the development cooperation policy shows that in fact the European Union gets involved depending on its own economic interests, without taking into consideration the effects of the aid on the economic development of the beneficiary countries. Nevertheless the EU seems to act and get involve a lot depending on the circumstances of the beneficiary countries. These actually show that the interests of the EU in the neighbouring countries doesn't seem to be mainly economical.

### **3. THE SOCIAL EFFECTS OF THE EUROPEAN DEVELOPMENT COOPERATION POLICIES**

In order to analyze the entire dimension of the development cooperation policies on the neighbouring countries we have to evaluate the social impact of the assistance. Our purpose is to illustrate if the European Union manages threw the aid to generate and promote its development model.

An important indicator for development is the Human Development Indicator (HDI) that combines statistics and figures that illustrate the development of a country from the revenue to the access to different social services. Our purpose is to see if the aid generated better living conditions in the beneficiary countries.

**Table 3. HDI versus ODA in the EU neighboring countries**

	Algeria		Egypt		Israel		Jordan		Lebanon		Libya		Morocco		Palestine		Tunisia	
	CPI	ODA	CPI	ODA	CPI	ODA	CPI	ODA	CPI	ODA	CPI	ODA	CPI	ODA	CPI	ODA	CPI	ODA
2005	0.680	2.8	0.625	3.4	0.885	6.3	0.684	5.7	0.714	3.1	0.746	2.5	0.558	3.2	..	2.6	0.679	4.9
2006	0.685	3.1	0.633	3.3	0.887	5.9	0.690	5.3	0.721	3.6	0.753	2.7	0.565	3.2	..		0.687	4.6
2007	0.691	3.0	0.640	2.9	0.892	6.1	0.695	4.7	0.728	3.0	0.760	2.5	0.571	3.5	..		0.694	4.2
2008	0.695	3.2	0.647	2.8	0.892	6.0	0.700	5.1	0.734	3.0	0.764	2.6	0.577	3.5	..		0.700	4.4
2009	0.708	2.8	0.653	2.8	0.893	6.1	0.704	5.0	0.739	2.5	0.768	2.5	0.581	3.3	..		0.705	4.2
2010	0.710	2.9	0.661	3.1	0.896	6.1	0.699	4.7	0.743	2.5	0.773	2.2	0.586	3.4	0.662		0.710	4.3
2011	0.711	3.4	0.661	3.2	0.899	6.0	0.699	4.8	0.744	3.0	0.725	2.1	0.589	3.7	0.666		0.710	4.1
	Armenia		Azerbaijan		Belarus		Georgia		Moldova		Ukraine		Legend Corruption Perceptions Index Net ODA received (% of GNI)					
	CPI	ODA	CPI	ODA	CPI	ODA	CPI	ODA	CPI	ODA	CPI	ODA						
2005	0.695	2.9	..	2.2	0.730	2.6	0.713	2.3	0.636	2.9	0.718	2.6						
2006	0.709	2.9	..	2.4	0.743	2.1	0.719	2.8	0.642	3.2	0.725	2.8						
2007	0.723	3.0	..	2.1	0.756	2.1	0.732	3.4	0.644	2.8	0.732	2.7						
2008	0.727	2.9	..	1.9	0.768	2.0	0.730	3.9	0.650	2.9	0.736	2.5						
2009	0.720	2.7	..	2.3	0.780	2.4	0.732	4.1	0.645	3.3	0.728	2.2						
2010	0.722	2.6	0.734	2.4	0.785	2.5	0.735	3.8	0.652	2.9	0.733	2.4						
2011	0.726	3.4	0.732	2.7	0.789	3.1	0.740	5.2	0.657	3.6	0.737	2.6						

*Source:* Human Development Index (HDI) value: HDRO calculations based on data from UNDESA (2011), Barro and Lee (2011), UNESCO Institute for Statistics (2012), World Bank (2012) and IMF (2012). Net ODA received (% of GNI): World Bank (2012a). "World Development Indicators 2012." Washington, D.C.: World Bank. <http://data.worldbank.org>. Accessed April, 2013.

The analysis of the data show that development aid manages to generally generate growth of the Human Development Indicator. Moreover if the aid raises it manages to generate positive results on the HDI, like for instance in the Republic of Moldova, Ukraine or Georgia. We also notice that the ODA increases when the HDI goes down and decreases when the HDI grows.

Another indicator of the social health of the political systems of the beneficiary countries is the level of corruption. We have therefore correlated the corruption perceptions index of Transparency International with the Official Development Assistance.

**Table 4. Corruption versus ODA in the EU neighbouring countries**

	Algeria		Egypt		Israel		Jordan		Lebanon		Libya		Morocco		Palestine		Tunisia	
	HDI	ODA	HDI	ODA	HDI	ODA	HDI	ODA	HDI	ODA	HDI	ODA	HDI	ODA	HDI	ODA	HDI	ODA
2005	0.680	2.8	0.625	3.4	0.885	6.3	0.684	5.7	0.714	3.1	0.746	2.5	0.558	3.2	..	2.6	0.679	4.9
2006	0.685	3.1	0.633	3.3	0.887	5.9	0.690	5.3	0.721	3.6	0.753	2.7	0.565	3.2	..		0.687	4.6
2007	0.691	3.0	0.640	2.9	0.892	6.1	0.695	4.7	0.728	3.0	0.760	2.5	0.571	3.5	..		0.694	4.2
2008	0.695	3.2	0.647	2.8	0.892	6.0	0.700	5.1	0.734	3.0	0.764	2.6	0.577	3.5	..		0.700	4.4
2009	0.708	2.8	0.653	2.8	0.893	6.1	0.704	5.0	0.739	2.5	0.768	2.5	0.581	3.3	..		0.705	4.2
2010	0.710	2.9	0.661	3.1	0.896	6.1	0.699	4.7	0.743	2.5	0.773	2.2	0.586	3.4	0.662		0.710	4.3
2011	0.711	3.4	0.661	3.2	0.899	6.0	0.699	4.8	0.744	3.0	0.725	2.1	0.589	3.7	0.666		0.710	4.1
	Armenia		Azerbaijan		Belarus		Georgia		Moldova		Ukraine		<div style="border: 1px solid black; padding: 5px;"> <p>Legend</p> <p>Corruption Perceptions Index</p> <p>Net ODA received (% of GNI)</p> </div>					
	HDI	ODA	HDI	ODA	HDI	ODA	HDI	ODA	HDI	ODA	HDI	ODA						
2005	0.695	2.9	..	2.2	0.730	2.6	0.713	2.3	0.636	2.9	0.718	2.6						
2006	0.709	2.9	..	2.4	0.743	2.1	0.719	2.8	0.642	3.2	0.725	2.8						
2007	0.723	3.0	..	2.1	0.756	2.1	0.732	3.4	0.644	2.8	0.732	2.7						
2008	0.727	2.9	..	1.9	0.768	2.0	0.730	3.9	0.650	2.9	0.736	2.5						
2009	0.720	2.7	..	2.3	0.780	2.4	0.732	4.1	0.645	3.3	0.728	2.2						
2010	0.722	2.6	0.734	2.4	0.785	2.5	0.735	3.8	0.652	2.9	0.733	2.4						
2011	0.726	3.4	0.732	2.7	0.789	3.1	0.740	5.2	0.657	3.6	0.737	2.6						

*Source:* Corruption Perceptions Index: Transparency International <http://www.transparency.org/research/cpi/overview>. Accessed April, 2013. Net ODA received (% of GNI): World Bank (2012a). "World Development Indicators 2012." Washington, D.C.: World Bank. <http://data.worldbank.org>. Accessed April, 2013.

Our conclusion after the analysis of the data is that it seems that generally the higher the ODA, the higher is the corruption. In the same time it seems that when the ODA rises the Corruption Perception Index rises as well. An explanation can be that it shows that in the states where it happens the system is deeply corrupted and proves the reasons for the lack of development. Another explanation can be that in reality the aid helped develop the civil society that contributed to the rising of the public consciousness and debate on corruption. The second explanation seems to be the most reasonable in this context in which Israel is according to this index the most corrupted country. The perception of corruption and hopefully the fight against corruption represent values that are promoted by the European Union.

In order to see the normative impact of the EU's Official Development Assistance we took a look at the effect it had on several freedom indicators in the neighbouring beneficiary countries.

**Table 5. Freedoms versus ODA in the EU neighbouring countries**

name	index year	overall score	property rights	freedom from corruption	fiscal freedom	government spending	business freedom	labor freedom	monetary freedom	trade freedom	investment freedom	financial freedom	ODA
Algeria	2011	52.4	30.0	28.0	83.5	62.4	69.4	52.9	75.4	72.8	20.0	30.0	207
Algeria	2004	58.1	30.0	50.0	74.1	62.4	70.0	N/A	81.1	55.0	70.0	30.0	316
Armenia	2011	69.7	30.0	27.0	89.2	85.7	82.4	75.9	76.0	85.5	75.0	70.0	374
Armenia	2004	70.3	50.0	25.0	90.0	88.7	55.0	N/A	84.5	80.0	70.0	90.0	253
Azerbaijan	2011	59.7	20.0	23.0	83.9	71.0	72.9	81.1	72.6	77.1	55.0	40.0	293
Azerbaijan	2004	53.4	30.0	20.0	78.3	87.9	55.0	N/A	80.2	69.2	30.0	30.0	175
Belarus	2011	47.9	20.0	24.0	83.6	26.2	70.6	82.3	62.2	80.3	20.0	10.0	127
Belarus	2004	43.1	30.0	48.0	75.4	36.8	40.0	N/A	31.6	65.8	30.0	30.0	49
Egypt	2011	59.1	40.0	28.0	89.6	65.3	64.5	53.6	60.8	74.0	65.0	50.0	410
Egypt	2004	55.5	50.0	34.0	66.1	76.8	55.0	N/A	79.8	57.4	50.0	30.0	1552
Georgia	2011	70.4	40.0	41.0	87.5	60.3	87.3	92.1	76.7	89.2	70.0	60.0	549
Georgia	2004	58.9	30.0	24.0	90.6	90.1	55.0	N/A	75.5	65.2	50.0	50.0	313
Israel	2011	68.5	70.0	61.0	62.3	44.8	66.1	64.3	78.4	87.8	80.0	70.0	0
Israel	2004	61.4	70.0	73.0	52.7	7.6	70.0	N/A	82.2	77.0	70.0	50.0	478
Jordan	2011	68.9	55.0	50.0	92.7	60.9	65.8	74.2	81.4	78.8	70.0	60.0	959
Jordan	2004	66.1	50.0	45.0	78.9	66.3	70.0	N/A	86.7	58.0	70.0	70.0	603
Lebanon	2011	60.1	25.0	25.0	91.0	64.9	57.5	59.0	77.7	80.5	60.0	60.0	432
Lebanon	2004	56.9	30.0	10.0	92.4	60.3	55.0	N/A	83.5	61.0	50.0	70.0	265
Libya	2011	38.6	10.0	25.0	80.3	44.5	20.0	20.0	71.0	85.0	10.0	20.0	642
Libya	2004	31.5	10.0	10.0	32.3	68.1	40.0	N/A	61.0	42.4	10.0	10.0	12
Moldova	2011	55.7	40.0	33.0	85.6	48.1	69.5	39.0	77.0	80.2	35.0	50.0	451
Moldova	2004	57.1	50.0	21.0	81.5	74.2	55.0	N/A	71.3	80.4	30.0	50.0	118
Morocco	2011	59.6	40.0	33.0	67.8	74.6	75.7	27.2	76.5	75.8	65.0	60.0	1237
Morocco	2004	56.7	30.0	37.0	63.2	70.4	70.0	N/A	85.7	34.2	70.0	50.0	770
Syria	2011	51.3	30.0	26.0	84.6	85.3	55.9	55.8	69.7	65.4	20.0	20.0	4340
Syria	2004	40.6	30.0	10.0	62.7	72.1	55.0	N/A	80.5	15.0	30.0	10.0	105
Tunisia	2011	58.5	50.0	42.0	73.7	77.6	80.2	65.7	77.3	53.5	35.0	30.0	657
Tunisia	2004	58.4	50.0	48.0	70.8	69.3	70.0	N/A	84.9	32.4	50.0	50.0	352
Ukraine	2011	45.8	30.0	22.0	77.3	32.9	47.1	50.0	63.2	85.2	20.0	30.0	749
Ukraine	2004	53.7	30.0	24.0	67.5	77.8	55.0	N/A	74.5	74.4	30.0	50.0	375

Source: Freedoms according to the indicators of Freedom House. <http://www.freedomhouse.org/>. Accessed April, 2013

The results don't show a clear correlation between the freedoms and the official development cooperation. Nevertheless we notice an improvement a general but not explicit improvement of the freedoms results when the aid assigned to the country increases. You can see this changes in the Republic of Moldova, Lebanon or in Georgia.

Another important indicator of the institutional climate in the beneficiary countries is that of the rule of law that we analyzed by comparing it with the ODA. Our conclusion is that the development funds don't manage to have a direct and clear impact on the development of the rule of law in the neighbouring beneficiary states.

**Table 6. Rule of Law versus ODA in the EU neighbouring countries**

Rule of Law		2004	2005	2006	2007	2008	2009	2010	2011
Country/Territory		Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
ALGERIA	Rule of Law	-0,55	-0,70	-0,66	-0,72	-0,72	-0,77	-0,76	-0,82
	ODA	316	346	239	394	325	318	198	207
ARMENIA	Rule of Law	-0,45	-0,37	-0,49	-0,46	-0,29	-0,45	-0,47	-0,41
	ODA	253	170	215	350	302	525	342	374
AZERBAIJAN	Rule of Law	-0,84	-0,74	-0,80	-0,79	-0,76	-0,85	-0,87	-0,87
	ODA	175	216	206	225	235	231	159	293
BELARUS	Rule of Law	-1,26	-1,19	-1,29	-1,15	-1,01	-1,00	-1,04	-1,08
	ODA	49	57	76	83	110	97	137	127
EGYPT	Rule of Law	0,09	0,03	-0,22	-0,20	-0,09	-0,06	-0,11	-0,42
	ODA	1552	1034	899	1136	1740	998	592	410
GEORGIA	Rule of Law	-0,66	-0,73	-0,47	-0,34	-0,26	-0,21	-0,21	-0,16
	ODA	313	292	356	379	887	907	625	549
ISRAEL	Rule of Law	0,87	0,81	0,95	0,87	0,88	0,81	0,88	0,98
	ODA	478							
JORDAN	Rule of Law	0,37	0,41	0,41	0,48	0,48	0,29	0,22	0,24
	ODA	603	708	572	640	737	740	954	959
LEBANON	Rule of Law	-0,23	-0,30	-0,62	-0,69	-0,66	-0,66	-0,66	-0,68
	ODA	265	230	819	978	1069	580	447	432
LIBYA	Rule of Law	-0,81	-0,87	-0,99	-0,81	-0,70	-0,86	-0,94	-1,16
	ODA	12	23	37	19	74	41	8	642
MOLDOVA	Rule of Law	-0,37	-0,40	-0,54	-0,53	-0,43	-0,48	-0,40	-0,36
	ODA	118	169	229	266	297	243	470	451
MOROCCO	Rule of Law	0,02	-0,12	-0,22	-0,23	-0,26	-0,22	-0,19	-0,21
	ODA	770	732	1102	1221	1451	929	992	1237
SYRIA	Rule of Law	-0,37	-0,47	-0,82	-0,65	-0,55	-0,47	-0,49	-0,66
	ODA	105	702	191	835	156	208	135	4340
TUNISIA	Rule of Law	0,14	0,10	0,22	0,19	0,16	0,19	0,12	-0,10
	ODA	352	362	431	321	374	502	550	657
UKRAINE	Rule of Law	-0,75	-0,79	-0,87	-0,79	-0,74	-0,80	-0,84	-0,86
	ODA	375	411	483	420	617	666	626	749

Source: Rule of Law according to the World Justice Project, <http://worldjusticeproject.org/>. Accessed April, 2013.

We can conclude that our results shown that the EU development cooperation aid doesn't represent an efficient way of promoting the European model. The only effects, mostly indirect, were the growth of the Human Development Indicator, the improvement of some freedom indicators and the growth of the perception of the corruption. These results may be due to the fact that the European Union doesn't manage to apply and verify correctly its political, economical and social conditionalities. These lack of effect can also be explained by the fact that these beneficiary states tend to be important importing countries of European goods and services.

## CONCLUSIONS

Our analysis partially enables us to answer our initial question regarding the capacity of promotion in the EU neighbouring countries of the European model threw development aid. Basically, even if it is hard to analyze its entire dimension, the development assistance policies can't be considered a soft power method that generated results in promoting the European standards. Nevertheless the fact that the European Union actually wins economically by trading with these beneficiary countries shows that the EU has at least obtained something from this aid.

In conclusion, we can state that the European Union uses development aid as an instrument of self promotion not as a imposing mechanism of the EU standards. The fact that the effects of the development aid, and of the neighbouring policy especially, don't seem to generate the expected results can induce a growing mistrust in this mechanism in the beneficiary as well in the donor countries. Furthermore these can lead to a trivialization of the conditionalities imposed by the European Union. In the future the European development assistance policy has to reform by adding elements and strategies capable of improving its efficiency, coherence and evaluation methods.

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**EASTERN PARTNERSHIP ROADMAP 2012 – 2013 AND THE  
EUROPEAN ENLARGEMENT STRATEGY:  
MAIN CHALLENGES TO THE CONDITIONALITY AND  
DIFFERENTIATED INTEGRATION PRINCIPLES**

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**Abstract:** *The paper aims to present the challenges faced by the EU in rendering the European Enlargement Strategy package and the Eastern Partnership Roadmap 2012 – 2013, both adopted in 2012, into efficient instruments to ensure deeper Europeanisation of its neighbourhood, as the continent is faced with numerous challenges. The current European context, marked by increasing Euro-skepticism and ongoing economic and financial struggle, is not helping either. It is important to point out the double – sided challenges faced by Europe’s neighbourhood: the difficulties are related to the relatively poor degrees of democratisation and modernisation. While faced with increasing turmoil in the Southern neighbourhood and difficult negotiations with the Western Balkan states, the EU risks to neglect its Eastern neighbours at a moment when they mostly need European assistance and engagement, for further deepening of their integration. Above all, the EU needs to consider ways in which it can give Eastern Partnership countries which have so far undertaken institutional reforms and with clear European aspirations, concrete perspectives for integration, similar to the Western Balkan states. The challenges faced by countries in the Eastern neighbourhood towards continued Europeanisation are multiple, both internal and external. It is high time for the EU to prioritize its approach towards these countries, building upon the lessons learnt from the negotiations with the Western Balkans.*

**Keywords:** Eastern Partnership Roadmap, European Enlargement Strategy, integration, challenges

## **INTRODUCTION**

Under increasing pressure of developments in the Southern and Eastern Mediterranean, there is a danger that the attention of the EU remains focused exclusively on this area, in a moment of crucial changes in Europe’s Eastern neighbourhood. This paper aims to look from a *comparative perspective* at the indicators, measures and targets set by two European documents: the Eastern Partnership Roadmap 2012 – 2013 and of the European Enlargement Strategy,

both adopted in May and October 2012 respectively. The objective is to establish whether the two documents share a common conceptual perspective and policy approach on the future of the targeted countries.

When comparing the two documents, one notices *significant similarities* between the indicators used in order to assess the performance of the targeted countries. The main common element present in the two is the strong focus on the respect for the Copenhagen criteria. In the case of the Eastern Partnership Roadmap 2012 – 2013 the focus is mostly set on the *political and economic association and integration*, through a varied range of measures, principles and instruments: implementation of rule of law and fundamental rights (freedom of expression, freedom of press and association) as the essential step stone; independent judiciary, fight against corruption, reform of the public administration and of the security and law enforcement sectors and Deep Comprehensive Free Trade Area agreements. Enhanced mobility, through visa facilitation, integrated border management and support for legal migration as well as the fight against human beings trafficking and organised crime are elements whose fulfillment is essential in the negotiations for the association agreements.

First of all, the areas of interest for the Eastern Partnership Roadmap cover: democracy, good governance and stability (more specifically at the respect for electoral standards and media freedom), cooperation between ombudsmen, integrated border management, support for asylum and migration, cooperation among law enforcement agencies; common foreign and security policy – aiming to stimulate dialogue and cooperation on international security issues; economic integration and convergence with EU policies, translated into trade cooperation linked to the Deep and Comprehensive Free Trade Areas (customs cooperation and trade facilitation, technical regulations and standards, including phytosanitary measures); cooperation in the field of labour market and social policies, energy security, etc. The fulfillment of these conditions has been painstaking in most EaP countries, not only in terms of difficult political conditions in several EaP states but also in terms of actual technical implementation.

The respect of rule of law remains the crucial element, as highlighted in both the Eastern Partnership Roadmap and the European Enlargement Strategy. Difficulties persist as regards their implementation in most Eastern Partnership countries, due to complex internal and external predicaments.

Since the launching of the Eastern Partnership in 2009, democracy in most EaP states has deteriorated, with the exception of the Republic Moldova. Ukraine, the largest EaP state, is more and more reluctant towards EU demands. Apart from Kishinev and Tbilisi, corruption represents a major obstacle against delivering the needed reforms in the public administration of EaP states. A particularly serious issue for the region remains the existence of several un-

resolved conflicts, among which Transnistria, Nagorno Karabach, South Ossetia and Abkhazia. Economic and trade challenges are equally serious, and part of the problem is the existence of visa barriers, as well as the state of the independence of justice, which continue to prevent a sufficient development of economic exchanges.

As for the European Enlargement Strategy, its main focus is the respect for the *rule of law*, which is also a key aspect tackled in the Eastern Partnership Roadmap. It is important to note that the European Enlargement Strategy proclaims a *renewed consensus over the enlargement process* as basis for further EU enlargement. The current enlargement agenda, according to the document, covers the countries of the Western Balkans, Turkey and Iceland, although the same document further takes note of *structural weaknesses and deficiencies* in some of the candidate (FYROM and Serbia) or potential candidate countries (Albania) in terms of respect of human rights and the rule of law.

At the same time it is worth highlighting that the commitment to continue with the enlargement process constitutes a major stimulus for supporting the *pace of reforms* in the targeted countries. The strategy supports also an enhanced regional cooperation in the Western Balkans as well as improvement of economic governance in most cases, although structural reforms are still needed in order to ensure macroeconomic stability and decrease unemployment. In Albania's case, for instance, the document notes serious corruption problems, while Bosnia Herzegovina seems to face a even greater challenge: that of ensuring *domestic cohesion* around the further European integration and Europeanisation objectives at the level of the society. At the same time, this cohesion-building objective should also be pursued more effectively in the case of Eastern Partnership countries, through stronger involvement of civil society.

A particularly important area where progress is noted to be still modest in the Western Balkans is the respect of human rights and the enforcement of minorities' protection, including effective implementation of anti-discrimination policies against Roma population (in Albania's case). This latter aspect is yet to be addressed by the Albanian authorities, so as to be able to ensure access of this community to social protection and services and prevent further marginalisation.

These structural deficiencies, left untackled, pose increasingly serious challenges to the credibility of the EU enlargement process. It is imperative to keep the enlargement process and agenda credible, considering that the experiences of the recent EU enlargements and the difficulties encountered by Central and Eastern countries point to the need of placing the rule of law at the center of the enlargement policy. One particular issue, which is very challenging, is how the EU can respond to cases in which conditionality seems not to be working.

That is why, more than ever, it is important to assess candidates depending on their individual merits, and increase thus the efficiency of the

*differentiated integration principle*. The European Commission has committed to give more support for those EaP which reform more. The EU should be as ambitious as possible with those EaP countries committed to meeting the required criteria and that have clear European ambitions, just as in the case of Western Balkans states. Similarly, we could speak about the similar concept of less for those who reform less. Eastern Partnership Roadmap and the European Enlargement Strategy may be considered as indicators of the predominantly similar way in which the EU perceives the neighbourhood and enlargement dimensions.

As Commission Stefan Füle remarked at the 3<sup>rd</sup> ICG meeting of the Eastern Partnership of November 2012, an important objective targets the consolidation of the Eastern Partnership as a multilateral and regional cooperation instrument, in an area where relations between neighbours leaves plenty of room for improvement. Another important element to be pursued is progress on mobility through visa facilitation and liberalisation with a visa free regime as final objective.

## CONCLUSIONS

Numerous challenges to the further progress and implementation of the EaP Roadmap remain, similar to those present in Western Balkan countries: insufficiently developed or even sour cooperation between EaP countries themselves; structural deficiencies in these countries, predominantly manifested in underdeveloped economies, high levels of corruption, high reliance on foreign assistance, poor infrastructure and insufficient involvement of civil society in public policy elaboration or shaping; EaP countries are highly heterogeneous; the EU right now faces an unfavourable context for further integration given the difficulties of new-comers to the Union in fully implementing all requirements in terms of rule of law. Last but not least, Russia's recent posture towards its neighbourhood has come to represent an element of preoccupation for these countries.

In this context, it is vital for EaP countries to clarify and better define their proposed objectives at the domestic level, also in the relation to the EU, in order not to affect or decrease their position during the forthcoming negotiations. At the same time, the EU should be ready to accept that EaP countries which have made substantial progress so far deserve concrete chances, similar to those in the Western Balkans. This involves a rethinking of the foreign and more specifically neighbourhood policy of the EU, in a moment in which Europeans are not willing or able to assume any risks as to their neighbourhood.

Such a rethinking should above all revalue and recalibrate the "more for more" and implicitly the "less for less" policy, given that so far it seems to have been very difficult to implement it. A new vision is needed as regards the status

of those EaP countries that have so far progressed in fulfilling the needed criteria, a vision similar to that used in the case of the Western Balkans. Since the European Enlargement Strategy notes structural deficiencies in certain Balkan countries, which have yet been granted the candidate status, it would be a biased position on behalf of the EU not to do grant the same status to EaP countries that have been making efforts to reform. Such duplicatory behaviour would also raise doubts as to the credibility of the EU's commitment to allow further members to join in.

To conclude, significant challenges remain, both at the level of EaP countries as well as amongst Europeans as regards advancement with the future aspirations for their Eastern neighbours. Most of the problems faced by EaP countries are also present in the Western Balkans states: weak rule of law, economic rigidities and unmaturing labour markets; high levels of corruption and organised crime, and administrative inefficiency.

New member states such as Romania and Poland, as well as other Visegrad group countries that share direct borders with EaP's Moldova and Ukraine, have a legitimate interest in seeking to support sustained democratisation in their immediate neighbourhood, preferably in a regional cooperation format.

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# THE IMPACT OF THE EU'S PUBLIC DIPLOMACY, AS AN INSTRUMENT OF SOFT POWER, IN THE CONTEXT OF THE EASTERN PARTNERSHIP

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**Abstract:** *This article explains how the European Union through its instruments and practices of public diplomacy, can change the opinion of the civil society in some of the countries, members of the Eastern Partnership. Taking into account, that EU is considered to be a model of soft power, it is important to specify that public diplomacy plays a crucial role in the European Neighborhood. Due to this fact, the article will examine how the public diplomacy of the EU it is implemented in the external relations of the EU, whose role is to promote European values, culture, political ideals, to influence foreign audiences and to build strong relations. Afterward, it will conclude with a study case, to show the impact of the EU's public diplomacy in Republic of Moldova, as a member of the European initiative, Eastern Partnership.*

**Keywords:** public diplomacy, soft power, Eastern Partnership, civil society

## INTRODUCTION

The international system, in the biggest part has the same structure as it was adopted at the Peace of Westphalia in 1648, and the state still remained an important actor, which resort to military forces sometimes, in order to achieve its national interests. However, the 21<sup>st</sup> century has come up with a series of challenges, that modified the traditional relations between states on the global stage, and their actual roles. Particularly, these changes were imposed, by the asymmetrical threats, which are the most dangerous and most common nowadays, such as cyber-crime, terrorism, illegal trafficking, piracy and natural disasters. (Lefebvre, 2012, pp.1-3). But in the new context, the relevance of cooperation and interdependency among international actors has significantly increased, in order to fight against and to prevent traditional and asymmetrical threats. It is the age of globalization, that contributed to increase the power of the European Community and to transform it into a soft power actor, mainly through cooperation, economic interdependence and public diplomacy, by promoting world-wide exchanges of national and cultural resources.

## 1. WHAT IS PUBLIC DIPLOMACY IN GENERAL AND, PARTICULARLY, IN EU?

Public diplomacy is defined basically as how a nation's government and society projects itself to external audiences in ways that improve these foreign publics' perception of that nation. Public diplomacy can tell us much about how a society views itself, thus it lies at the intersection between identity formation and external image. But the messages which are communicated are most believable when they actually reflect the identity and values of those delivering them. (*Davis Cross, 2010, p.8*).

On the one hand, public diplomacy can be considered the efforts by which an actor seeks to transfer ideas and beliefs by influencing foreign political discourses through direct contact and participation in political debates, where the delivered messages and the projected self-image are intended to persuade foreign publics. On the other hand, it is argued that standard public diplomacy strategies involve educational, informational, and cultural programs designed to attract foreign audiences. (*Nye, 2004, pp.4-5*).

In this context, the European Union is an example of developing and implementing these kind of activities in the Eastern neighborhood through the Eastern Partnership (EaP). Furthermore, it is important to highlight that public diplomacy is also associated with the notion of soft power, that is defined by Joseph Nye as 'getting others to want the outcomes you want' or to shape what others want, not by means of coercion, but by attraction. (*Nye, 2004, pp.5-7*) While Jan Melissen, sees public diplomacy as a key instrument of soft power. (*Melissen, 2005, p.4*) In this perspective, public diplomacy is considered to be a method by which the attractiveness of a country's ideals and values can be promoted, just as the European Union, like a soft power, works through its diplomatic arm, European External Action Service. Thus, in the long run, it is concluded that successful public diplomacy promotes national interest and achieves foreign policy goals through soft power tools. Simultaneously, many scholars affirmed that public diplomacy can occur, also, between non-state actors, such as supranational organizations, transnational networks, NGOs, corporations, sub-national actors, and foreign publics with the same goals in mind. (*Melissen, 2005, pp.11-13*). Regarding to this, the public diplomacy of the EU in the context of cooperation with non-state actors in Eastern Partnership, is performed by the EaP Civil Society Forum. The aim of this initiative is to strengthen civil society in the partner countries which can be active actors in promoting democratic and market-oriented reforms based on shared values, like respect for democracy and human rights, the rule of law, good governance and sustainable development.

Therefore, the image of an actor, in this situation, the image of EU is essentially comprised of the package of norms that reflect its identity, values, and actions in the international system. In this regard, it is a general agreement that the

EU lacks the hard power to influence directly the reality ‘on the ground’, and as an actor under construction, it has been convincingly argued that the EU’s primary means of influence is through its normative (*Steffen Bay, 2010, p.264*) and soft power.

## **2. HOW IT IS IMPLEMENTED THE EU’S PUBLIC DIPLOMACY?**

In the following part, I will present how does the European Union became a soft power and what kind of tools from the area of public diplomacy it uses in order to become an important, attractive and prosperous international actor on the global stage and, particularly, in the Eastern neighborhood.

The Second World War devastated the entire Europe, and this led to a major economic collapse, where the former great colonial powers like Great Britain, France, Belgium, Spain and Portugal, were weakened and were no longer able to impose their influence, to find resources to rebuild the continent. Therefore, the solution came from the two major powers: the USA and of the Soviet Union. Above all, that situation was unexpected among the European countries which hardly supported the consequences. But all the hopes have been placed in the future, by creating a Union of states dedicated to bring peace, stability and prosperity on the European continent. At the beginning, the European Union was designed as an economic arrangement, but now it became a supranational organization, composed of 27 members, where all together have to work for one voice, to develop and to maintain the status of the EU as a big power, despite the recent economic crisis.

On the other hand, the realist thinkers consider that an actor is not a veritable power if doesn’t possess hard power. Thus, the inability of the EU to use military forces in its foreign policy is seen as a critical weakness. But to analyze EU’s foreign policy, exclusively, through the realistic point of view means to discredit the profound tragic consequences that the Second World War left on the continent and to avoid, in this way, the peaceful intentions of the founding fathers of the European Union. Nevertheless, some of the EU’s external policies reveal the fact that the EU uses besides the instruments of soft power, also tools of hard power. Most of them are part of the collective defense, like peacekeeping missions and crisis management, but in fact, the implementation through tough means is carried out by NATO. In this regard, EU can be considered a smart power, a concept that is defined by the distinguished professor in Harvard University, Joseph Nye as a “combination of soft and hard power tools”. (*Jiang, 2009*) This concept is explained in the European Security Strategy, and is exemplified through the EU’s policies, which are able to wield all types of foreign policy instruments from trade policy to development aid, from diplomacy and defense, including support to the police, the legal system, customs, reconstruction and the reform of the state, to civil protection. (*European Security Strategy, 2003*). In this respect, the EU can be a world power by developing

its tools of soft power and its external policies, but above all it has to speak with one voice, it has to find support in its Member States, in their desire to act together, in the solidarity that exists between them. Taking into consideration that the primary way in which member states and EU institutions can articulate their interests and work together in the international arena is through diplomacy, in 2009 the EU established its diplomatic arm, the European External Action Service (EEAS), which aims to bring greater synergy to European diplomacy and national diplomacy. This diplomatic service has developed strategic partnerships with key international players and has signed bilateral Association Agreements with a number of states in its vicinity, while with others it is in negotiations. Furthermore abroad, the Union is represented by 141 EU Delegations, and the difference is that the powers of the new EU Delegations are significantly broader and more ambitious than the old Commission delegation. The EEAS is a major innovation in the field of diplomacy because it is the first supranational diplomatic service of this kind. And the fact that Europeans were willing to launch an ambitious, new multinational diplomatic institution shows that they are taking smart power seriously (*Mai'a K, 2011*).

### **2.1. The tools of public diplomacy that helped the European Union to become a soft power**

Behind the European External Action Service, operates other initiatives which have a major role in developing the European Union public diplomacy, and consequently its soft power.

As I've presented before, in order to strengthen the relation between European Union and its citizens, it was necessary to create a new initiative with the aim to spread the Union's values, policies, legislation and priorities and to make them understood by the European societies. This project had the goal to expand the sentiment of appreciation among the European citizens towards the EU's activities, to develop the sense of common European identity and to consolidate the dialogue between the citizens of the EU and its institutions, because where in no understanding, there is no harmony. Thus, in 2005 the European Commission adopted an Action Plan to improve communicating Europe by the Commission, and afterwards it was created a Communication policy and strategy. Now these tasks are managed by the Directorate General for Communication, which has the responsibility to communicate and advocate the policies and activities of the Union in a manner that people to understand. According to the Communication Strategy, numerous EU Information Centers have been set up in the candidate countries, a good opportunity to inform people about the European Union's activities, legislation and institutions, through organizing different press conferences, lectures and seminars. In the area of communication and spreading the information about EU, media is considered to be a crucial measure to influence the public opinion. In this regard, the Commission has established a presence through several new media such

as the Internet server Europa, the television service Europe by Satellite, the question and answer service Europe Direct, and the popular video broadcaster YouTube where the Commission hosts its own video service called EU Tube. In order to measure the success of its public diplomacy, the Commission is assessing the evolution of public opinion through the Eurobarometer. Furthermore, as EU is composed of 27 countries who shall work for one voice, the communication efforts of the Commission is further reinforced by the individual communication strategies of each member country. Also an important role in the area of communication and enlargement belongs to the DG Enlargement, which has the responsibility to disseminate information regarding the process of enlargement, to promote this process, to assist candidate countries and potential candidates in meeting the “Copenhagen criteria” and monitor their progress, as well as to manage the bulk of the EU’s financial assistance to candidate countries and potential candidates. These activities are contributing to the implementation of EU’s public diplomacy. In the same time, the Education and Culture Directorate General is also charged with an important public diplomacy purview, namely EU cultural diplomacy. Cultural and educational exchanges are particularly dynamic among member-states. They are carried out in the framework of programs such as Socrates, Leonardo da Vinci, Erasmus Mundus and others. These programs provide valuable experience in cultural, educational and vocational exchange and could serve to develop similar capability with third-countries. Another tool of public diplomacy, which contribute to increase the EU’s soft power is Europe Aid Development and Cooperation, which is responsible for designing European development policy and delivering aid throughout the world. EuropeAid is an active and proactive player in the development field, that promote good governance, human and economic development and tackle universal issues, such as fighting hunger and preserving natural resources.

And the last but not least, is the DG External Relations, which leads the Commission’s public diplomacy activities and is responsible to project the Union’s values, norms and policies abroad, by working together with the delegations of the Commission, one of the main promoters of public diplomacy that contribute to consolidate Union as a power.

### **3. THE MAIN INSTRUMENTS OF PUBLIC DIPLOMACY USED IN THE EASTERN PARTNERSHIP**

The enlargement of the EU, in 2004, determined the EU leadership to take into consideration the new opportunities and challenges that were going to appear in the geographical proximity in the near future. In this respect, enlargement was seen as a fact that will change the shape of the EU’s political and economic relations inside and beyond the Union.

In that context, the EU had the duty to ensure continuing social cohesion and economic dynamism, not only towards its citizens but also towards its neighbours. The EU took the responsibility to promote the regional and subregional cooperation and integration which are the preconditions for political stability, economic development, reduction of poverty and social divisions in our shared environment. The main goal of the EU was to develop a zone of prosperity and a friendly neighbourhood, based on enhanced interdependence, both political and economic, in order to strengthen the framework of the Union's relations with neighbouring countries. (COM, 2003, 104 final, p.3-6). Due to these facts, in 2004 was created the European Neighbourhood Policy. An European bilateral policy, which further was complemented by regional and multilateral co-operation initiatives: the Eastern Partnership, launched in Prague in 2009, the Union for the Mediterranean, formerly known as the Barcelona Process, re-launched in Paris in 2008 and the Black Sea Synergy, established in Kiev in 2008.

In the framework of the EaP, the EU sought to expand its influence by creating special relationships, based on mutual commitment to European values and norms. But the partnership is developed with each neighbour on the basis of its needs, capacities and reform objectives. The EU does not seek to impose a model for political reform, but insists only that each partner country to make progresses towards the adoption and the implementation of universal values of democracy.

Due to the fact that civil society is considered to have a crucial role that contribute to the development of a policy-making under the international democratic norms, (European Commission Press Release, 2012) in the EaP have been created several initiatives, that support the consolidation of civil society. In this regard two of four Thematic Platforms of EaP, conclude that civil society is an important resource which should be sustained. The Platform 1 on „Democracy, good governance and stability” in the area of Security and Stability recommends to resort to Civil Society Organizations in order to improve the capacity for advocacy and to promote confidence building in areas of conflict, such as in Transnistria, South Ossetia, Abkhazia or Nagorno-Karabakh. While Platform 4, on „Contacts between people” in the area of culture proposes “to open a window to complement the Youth in Action Programme in the six partner countries, because this will promote youth mobility, exchanges and will enhance intercultural dialogue and mutual understanding.” (SEC(2008) 2974/3, Eastern Partnership)

Further efforts to engage actively with local civil society in the neighbouring countries, takes place under the Eastern Partnership Civil Society Forum (EaP CSF). The aims of the Forum is to support the development of civil society organisations and facilitate their dialogue with public authorities, as well as to improve the public's knowledge of the EaP. Taking into account, the information about the EaP from independent organisations is likely to have more impact, this process should facilitate the sharing of information and experience on the partner countries' steps toward transition and to influence EU institutions and national governments by

presenting the recommendations of the CSF during their decision-making process. In this context, the EC Delegation together with Member States Embassies also contribute to promote and to maintain the dialogues between civil society and European institutions. (*COM (2006) 726, Strengthening the ENP*)

Moreover, commissioner Štefan Füle and High Representative Catherine Ashton suggested in the „Review of the European Neighbourhood Policy” in 2011, that new policy concepts and several instruments should be adopted. Under the new policy approach, of deep democracy, the principle “more for more” refers to the fact that the EU will develop stronger partnerships with those neighbours that make more progress towards democratic reform. Thus, the EU continued to provide financial support for partner countries’ reform efforts by making available additional financial resources worth EUR 1 billion from the EU budget in the period 2011-13. Of this, EUR 670 million is channelled through two umbrella programmes: EUR 540 million for SPRING in the Southern Mediterranean and EUR 130 million for EaPIC in the Eastern Neighbourhood. (*European Commission Press Release, 2013*).

Likewise, to encourage this policy to function better and efficiently, the EU established in 2008 the Civil Society Facility (CSF) for the neighbourhood. An instrument that seeks to support financially the process of democratisation, by enhancing the role of civil society organisations in the public debate on democracy, human rights and rule of law, and has the capacity to influence policy and decision making processes. (*Action Fiche for Neighbourhood Civil Society Facility, 2011*) Another instrument that support pro-democracy activist and organisations for democratic transition is the European Endowment for Democracy, which was set up last year and should be operational during the first half of 2013.

In supporting the reform processes in the Neighbourhood the EU has intensified the cooperation with other stakeholders, notably all EU institutions, the Council of Europe, the OSCE, the Eastern Partnership Civil Society Forum. It has increased efforts aimed at better coordinating with other international donors.

### **3.1. Republic of Moldova in the context of Eastern Partnership**

In the next part I will present how the EU’s public diplomacy in the context of the Eastern Partnership have influenced the partner countries, particularly the Republic of Moldova.

Since the beginning the cooperation between EU and Eastern countries, was expected to be a fruitful one with positive results towards deep and sustainable democracy, according to European standards. Despite the political and economic instability that have been registered in the previous years, the regional reports on the progress of the EaP in 2012, reveals that many partners remained committed to strengthening relations with EU and that the financial resources in the form of grants and loans allocated to the region have increased. (*European Commission Press Release, 2013*). In the same time, the EU is trying to come with recommendations

according to the each state's situation, needs and aspirations. The EaP can support, but not replace, the process of building democracy which stands in the hand of their citizens and their elected politicians. According to the recent analysis and reports, in Republic of Moldova, progress has been made on the key recommendations made by EU. It stepped up efforts to implement judicial and law enforcement reform, engaged in dialogue with Tiraspol, continued to implement reforms in the areas of social assistance, health and education, energy, competition, state aid and regulatory approximation to the EU acquis. The EU and Republic of Moldova worked to improve the mobility of people. It finalised the remaining steps under the first phase of its Visa Liberalisation Action Plan (VLAP), and stepped up institutional reform of the aviation sector.

During the EaP Foreign Ministers' meeting in July 2012 was stated that until the next EaP Summit, which will take place in Vilnius by the autumn of 2013, (*Eastern Partnership: A Roadmap to the autumn 2013 Summit*, JOIN(2012) 13) EU is expecting, the negotiations on Association Agreements and DCFTA with the Republic of Moldova to be advanced, if not finalised.

Likewise, the EU expects to see credible and sustained efforts towards the earliest possible peaceful settlement of the Transnistrian conflict in the Republic of Moldova. Regarding the Platform on contacts between people which support the interaction between EU and partner's citizens, focusing in particular on students, academic staff, researchers, young people and cultural actors. Cooperation is organised in and around a number of EU cooperation programmes, new or existing, in the areas of education, higher education, research and innovation, youth and culture. Cooperation to foster contacts between people should result in increased participation by partner country students and teachers in EU international higher education cooperation programmes. For example, it is expected that more than 2300 scholarships will be awarded to partner country students and academic staff through the Erasmus Mundus programme for the 2012 and 2013 academic years. The convergence of higher education systems, promotion of school cooperation and collaborative learning will also have increased. Partner countries should benefit also from increased participation in the EU Youth in Action Programme. Cooperation in the field of culture will be intensified through the Eastern Partnership Culture Programme and enhanced policy dialogue, including expert level seminars as well as a high level event gathering policy makers and personalities from the cultural scene to be held in 2013. Cooperation in this context should help in raising awareness in partner countries on the potential of culture in economic and social development and to strengthen crossministerial cooperation in cultural matters. Cooperation will have been initiated in the audiovisual sector involving policy makers and professionals' representatives. 2012-13 should also see the increased participation in the EU 7th Research Framework Programme through building research capacity and improved dissemination of knowledge on funding opportunities, in particular by the locally appointed focal point contacts and sharing of best practice on, in particular,

the independent peer review of research proposals. In the end, I think that EaP represents an open door, a great opportunity for the young Moldovan people to benefit from EU funded scholarships to study abroad. This issue is very important because teenagers are an essential human resource, they are the future of the country. Also through this project, have been registered progress towards the liberty of mass-media, which is a step forward in the state's modernisation and democratisation. And due to the fact, that one the main priority of Moldova's foreign policy is to become a member of EU, EaP represents an initiative that promotes EU's values, norms and goals and contribute to implement them in the partner countries. In this framework, the awareness about EU among the Moldavian citizens is increasingly raised and the EU's public diplomacy is functioning efficiently. But in reality, the European path of Republic of Moldova, depends on the political class and their decisions.

## CONCLUSIONS

In conclusion the efforts of EU to become a power, a model of democracy on the international stage is made, in major part, by its diplomatic service through the instruments of public diplomacy. The most recent exemple of succesful implementation of this dimension was EaP, which is still in progress. As a result, the EU is seen as a model and an inspiration for people in the neighbourhood when it comes to the values that are the basis for the EaP, human rights, democracy, fundamental freedoms and prosperity and solidarity. Moreover a public opinion survey conducted in ENP partner countries (*EU Neighbourhood Barometer Spring 2012 and Autumn 2012*) shows that the EU is positively perceived by people in most of its neighbours. Also, the EU is associated with the promotion of human rights, solidarity, prosperity, democracy and freedom of speech. These values and economic development are seen as main aspects of cooperation. In the same time, many people do not feel they are well informed about what the EU does in their countries. This underlines the need to improve public diplomacy, to better inform citizens in partner countries about EaP, its objectives, instruments and its achievements through EC Delegations, Member States Embassies and Eastern Partnership Civil Society Forum.

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# A NEW ECONOMIC DIPLOMACY TOWARDS THE EASTERN PARTNERSHIP STATES

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**Abstract:** *The world nowadays is structured on 90% economic interest and on 10% other interests. The development of globalization, the new structures that increase in the world and the new market evolution, from the real to virtual space involve new criteria of adaption at this new reality. The field of Economic Diplomacy is developed by the states that want to have a strong impact at the global level. Analyzing the Economic Diplomacy of the European Union, we can observe that this is represented by the actions of the External Action Service of the EU, that keep the markets open, access to resources, and the development of business at the global level. The field of Economic Diplomacy in the European Union is also a component of the members states' interests, but not yet a priority that the European Union uses to develop its strategies and impact at the global level or at the regional level regarding the Eastern Partnership States. Our work presents, in the first part, the structure of Economic Diplomacy, the actual directions in European Union Diplomacy and the possible development of a new economic diplomacy of the EU in the context of the Eastern Partnership States. We will show the impact of the new economic diplomacy for the collaboration with the Eastern Partnership States.*

**Keywords:** new economic diplomacy, business, Eastern Partnership States, European External Action Service, globalization, European Union.

## 1. THE NEW ECONOMIC DIPLOMACY – STRUCTURE

Diplomacy is an area that over the centuries has been developed through numerous new strategies, the diversification of negotiations topics and recovery of techniques of persuasion. It is based on these processes, all the rules and principles recognized internationally, representing the interaction of representatives of a state in another state, collaboration, compromise and mutual exchange, and it also follows foreign policy objectives. Diplomacy is the main instrument of foreign policy and contains all the resources that are used to achieve the main objectives in the state's representation.

Since the first state organization, diplomacy has been used for the representation of states in the external relations. The century of speed, marked by unprecedented advances of technology imposed a multidisciplinary manifestation of diplomacy. The development of globalization since the end of the XXI century led to the enrichment of the diplomatic activity that evolved

from the classical bilateral diplomacy to multilateral diplomacy, which is economic, cultural or scientific diplomacy (Cordeiller, 2000, p. 202). The creation of economic diplomacy was an important factor for the development of international business collaboration.

Economic diplomacy was born in the United States of America during the Roosevelt presidency when there was a need to build an "economic constitutional order" (Milkis, 2005, p. 387). The economic constitutional order was important to develop economic interests at the international level.

This idea of economic diplomacy was extended to other countries, diversifying economic diplomacy activities at the global level.

The "Dollar diplomacy" was developed by the U.S. President William Taft and Secretary of State Philander Knox as a strategy involving the American private banking resources in order to reduce European creditors' strength and to strengthen the American influence (Achcar, 2002, p.33). Dollar Diplomacy was specific to the interwar period and was a way to achieve diplomatic interests by using economic means. The formation of the euro area and oil interests is an important prerequisite in the creation of euro diplomacy and oil diplomacy. We believe that the manner in which an international actor is practicing its diplomacy is one of its main features and depends on the level of development of political and economic points of view.

There are, according to the authors Bayne and Woolcock, four reasons that determine the importance of Economic Diplomacy (Bayne, Woolcock, 2003, p.4 ).

The primary reason to consider the field of Economic Diplomacy important is because this domain is one of the most dynamic processes existing in the international structures nowadays. Different studies in the international business field allow companies' to focus attention on various government policies and, therefore, governments are more careful about how they collaborate with multinational companies and how they can influence international relations.

The second reason has support in the fact that economic diplomacy is becoming increasingly necessary. During the Cold War, international relations were dominated by a focus on security and international relations studies were primarily interested in just covering this type of analysis. The end of the Cold War has reduced the role in analyzing security and it has been replaced by economic relations which have gained a greater importance. Following the terrorist attack on the United States on September 11<sup>th</sup> 2001, maintaining global security has become a goal of all states, and economic diplomacy has become a means to reduce the causes of terrorism and marginalization, and also to provide solidarity and collaboration at the global level.

The third reason is the need for efficiency in international relations which involves highly coordinated diplomacy at the globally level. With the advancement of globalization, governments need policies that are adapted for the

interaction between the national and international interests economy and to develop new areas of business. To create a strong interaction between the national economy and international economic relations requires strong economic diplomacy.

The fourth reason is that governments must ensure that their decisions affect the economy and diplomatic relations globally. This requires a better understanding of decision making and the implementation and imposition of a strong economic diplomacy system.

Shaun Riordan believes that economic diplomacy is one form of diplomacy that will grow increasingly in the global context (Riordan, 2004, p. 13). The author criticizes the lack of debate in Europe about the inadequacy of traditional diplomacy in terms of a new global society and in the terms of the actual development of international relations. He believes that modern international relations require specialists in specific multinational organizations, corporate finance, international trade negotiations and environmental issues. In addition, Riordan points out that globalization will require a breakdown of diplomacy on specific areas of social, political, economic and cultural diplomacy.

Wilfried Bolewski presents the lack of theoretical approaches about the need to adapt the new diplomacy to globalization. Bolewski argues that diplomacy shall necessitate interdisciplinary and international research to address new challenges and missions. The author points out that globalization has an impact on diplomacy, stressing that the acceleration of globalization is involving new participants in global relations, but also that new technical and technological information changes the role of diplomacy today (Bolewski, 2007, p. 4).

When there is economic diplomacy of a state, there is a structure of diplomacy that provides the interest of a national economy, but when there is the economic diplomacy of a Union of States, there is the interest of the Union of States. How, therefore, can we determine the common interest in economic diplomacy? To determine the common interest in ED, we propose to use the Formula:

**ED = Influence of Politics + Trade Promotion + Investment Interest + Market Development**

The importance of Economic Diplomacy in a system of interests is underscored by the growing power of the Union of State's politics mixed with the development of markets and access to new markets, cooperation in trade promotion and in the sphere of new investments.

## 2. DIRECTIONS OF THE EU DIPLOMACY

In the Maastricht Treaty, the Treaty of the European Union, it was shown that diplomacy requires a strong epistemic community. Without a strong epistemic community of diplomats and without their ability to convince states, the creation of agreements would be impossible (Davis Mai'a K Cross, 2007, p.183).

The European Union is supported by three pillars, represented by economy, foreign policy and security policy, such as police and judicial cooperation in criminal matters. The EU foreign policy contributes to the first pillar of the EU, which is the economy and includes several components, including foreign trade, the European Monetary Union, surveillance and coordination of economic policies through multilateral coordination, respect for the market economy and liberalization of capital movements. Tensions in the definition of the EU foreign policy are the competing interests involving European integration and Atlantic solidarity, civil power and military power, intergovernmental approach and the community approach, and external goals and objectives of integration and identity.

Some authors have observed that, globally, the EU acts, on the one hand, as an instrument to protect member states against the negative consequences of globalization, trying to coordinate this process and, on the other hand, the EU is an agent of globalization, promoting multilateralism (Keukeleire, MacNaughtan, 2008, p.9).

The EU can be compared to a unique puzzle that comprises two dimensions: a combination of economic and political union of several states and synchronization, particularly in the Economic and Monetary Union. The EU economic integration is based on representing the most extensive form of international economic integration. The EU external representation is influenced by "the power to speak, act and negotiate on behalf of all member governments" and how other global actors act externally (Tallberg, 2006, p.81). The EU diplomacy builds, later it is ready to organize an economic diplomacy representing all the EU member states.

Organizing and strengthening the overall EU diplomacy is achieved by forming the European External Action Service, which was approved in 2009, eight years after the start of the XXI century and two years after the sixth round of enlargement, which included Romania and Bulgaria and the creation of EU27. The EU diplomatic service has been proposed in the Treaty of Lisbon in 2009, which exposed the importance of representing the EU as an international actor.

The Lisbon Treaty has proposed the creation of the European External Action Service (European External Action Service). It is meant to represent the European Union in foreign policy. All states in the EU contribute to the purpose and powers of the department to represent the EU interests globally.

The Maastricht Treaty defines Foreign and Security Policy of the European Union. The 1997 Amsterdam Treaty created the post of High Representative for Foreign and Security Policy, and on October 18th 1999 Javier Solana was appointed the first High Representative. Institutions in Brussels, the High Representative, as the representative of the 27 Member States, designs short and medium-term responses to crises.

The EU Council approved on October 23<sup>rd</sup> 2009 the creation of the European External Action Service. In The Article 27 (3) shall constitute the legal basis for the European Council to the organization and functioning of the European External Action Service (EEAS-The European External Action Service) and shall specify:

*In fulfilling his mandate, the High Representative shall be assisted by the European External Action Service. This service shall work in cooperation with the diplomatic services of the Member States and shall comprise officials from relevant departments of the General Secretariat of the Council and the Commission, as well as personnel seconded from the diplomatic services of the Member States. Organization and functioning of the European External Action Service shall be established by decision of the Council on a proposal from the High Representative after consulting the European Parliament and after obtaining the approval of the Commission* (Council of the European Union, p. 2).

According to the decision of the European Council, by agreement of the President of the European Commission on 1 December 2009, Baroness Catherine Ashton became the first High Representative of the Union for Foreign Affairs and Security Policy, with a term of 5 years up to October 31, 2014. Baroness Catherine Ashton is also vice-president of the European Union for Foreign Affairs.

To coordinate political and economic management of the EU interests worldwide, the European diplomatic service was very appropriate, considering that the 27 EU Member States had an office unit, one voice outside the European Union. Among diplomats there is a belief that EU representatives should be selected and that young people should make a future career in European diplomacy, and represent the department globally, adapting quickly in the context of modern technology. Graham Avery says that the presence of young people among European diplomacy diplomats will give future generations a more thorough understanding of national and European activities and will contribute both to the development of a professional culture in which *national and European terms will not involve antinomy, but synergy* (Avery, 2009, p.2).

The Diplomacy of the European Union is represented by the European External Action Service and it is making the steps to be adapted on the global interest. An important step will be the creation of an Economic Diplomacy of the

EU Department that will represent officially the EU's economic interests worldwide.

### **3. THE NEW ECONOMIC DIPLOMACY AND THE EASTERN PARTNERSHIP STATES**

A strong cooperation between the EU and the Eastern European Partners such as Georgia, Armenia, Azerbaijan, Belarus, Moldova and Ukraine is one of the priorities for the EU's external relations.

The Eastern Partnership was launched at the Summit of Prague on May 7<sup>th</sup> 2009, as a collaboration between the EU and the Eastern European partners to promote economic and political reforms and to assist these countries in social development (*Eastern Partnership: A Roadmap to the autumn 2013 Summit*). The second Summit was held in Warsaw in September 2011 and it reaffirmed the Prague Agenda and called for a renewed commitment to shared values and cooperation.

The main goal of the Eastern Partnership is the creation of the conditions to accelerate political association and deepen economic integration between the European Union and the Eastern European Partner Countries.

Events from the Eastern Europe countries and the Southern Caucasus affect the activity and the economic and political interests of the European Union. The EU enlargements have put these countries closer to the EU borders and this makes their activities, security or stability and prosperity increasingly relevant for the EU. These countries are partners, for example, to diversify the EU's energy supplies. These countries reform their economic and social systems in order to come close to the EU priorities.

The problems of Georgia and the conflict of August 2008 showed the danger of insecurity of these states and have helped determine that the EU's security is promoted outside its borders today. In this context, the European Commission tries to enhance the political, economic, and geostrategic relationship with Georgia, Armenia, Azerbaijan, Belarus, Ukraine and Moldova. This would suppose a new Economic Diplomacy of the EU to make a stronger cooperation in the area of Eastern Partnership States.

The New Economic Diplomacy of the EU will determine the creation of new association agreements for a deep and comprehensive international and global trade and will gradually integrate these into the EU's economic structure. The economic integration of these countries in the European Union will also provide the opportunity to travel without a visa in the EU for the citizens of these countries and will reduce the process of illegal immigration. A New Economic Diplomacy of the EU will promote good governance, strengthen energy security, promote the reform of the economic system, support the social development and

promote the role of young people working for the European Union. This will reduce socio-economic imbalances and increase stability in the region.

## CONCLUSIONS

The New Economic Diplomacy of the European Union is a way to develop a stronger Eastern Partnership and help partners to accomplish their transition towards economic cooperation, access new markets and develop a stronger Europe in the context of economic interdependence.

In order to support the implementation of the Eastern Partnership objectives, the New Economic Diplomacy of European Union has to be more adapted on the economic problems of this region. Without strong economic cooperation between the European Union states and the Eastern States, there will not be a future strong market in this area. To realize the economic integration and convergence of these countries with Euro-Policies, the European Union has the option to develop its Economic Diplomacy Strategies for the facilitation of trade and customs cooperation, the development of business, the protection of intellectual and industrial property, and the development of enterprises and business contacts.

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## **EUROPEAN IDENTITY BEYOND EU BORDERS: THE CASE OF TURKEY'S MEMBERSHIP**

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**Abstract:** *Through this paper we review theoretical approaches and research conducted to date on the concept of "European identity", focusing on the role of otherness in shaping it. European project, conceived originally as an institutionalization of cooperation between European states, has become today an important presence in the social and political life of its citizens, who are driven to relate to a supranational community that includes new challenges. Thus the binder of the new extended society of Europeans seems to be European identity, its establishment being able to ensure the necessary support for the institutions of this level. Based on the social identity theory of Henri Tajfel, according to which a group` identity is shaped by the connections he establishes with the "out-groups" that he comes in contact with, Europe`s identity, as it is presented at a global level, has been outlined through the European organization`s relations with partners or neighboring countries. It was a reciprocal relationship in so far as these states have developed at their turn by reference to the political, economic, social and cultural European environment. Turkey is one of the oldest partner states of the European Union and now candidate for accession to the European space, status which caused noticeable changes in the political and economic structure of the Turkish state. The hypothesis of this paper is that the Europeanization of the Turkish Republic contributed to the consolidation of its diplomatic role in the Middle East, by becoming a model of governance for countries affected by the Iraq war and the Arab Spring revolutionary movements.*

**Keywords:** European identity, Turkey, European Union relations, Europeanization process.

### **INTRODUCTION**

The enlargement waves of European Union have changed the political and cultural coordinates of the European existence, and the creation of European citizenship is a new situation to which the population of the Member States must adapt. The emotional detachment of individuals from the European organization was not considered in the past a significant problem as long as the so-called "permissive consensus"(Lindberg&Scheingold, 1970 apud. Duchesne, 2008:398) has given the national and European political elites the opportunity to develop the Community. But today the European area has extended considerable, and the integration process

has reached a level in which any progress cannot be registered without the support of European public. (Kaina 2010:6). This might explain the increased interest of the central level officials of the Union for the promotion of a European identity through a mechanism of "top-down", the citizens of Europe becoming receptors of a collective identity through the policies concretized by European leaders.

The concept of *identity* is a very commonly used one, but very difficult to define. Identity comes from the Latin term "identitas" which means "the same thing", and although it is a fluid concept, finding the essence of this notion has been, for a long time, one of the most important concerns of many sociologists, psychologists and philosophers.

The renowned philosopher, of German origin, Jürgen Habermas has defined identity, based on the concept of universal citizenship stated by Kant, as a post-national solidarity of individuals towards a universal constitution, which would create a universal state (Habermas, 2001). On the other hand, Anthony Giddens emphasizes the interdependence relationship existing between an individual's self-perception and changes produced at the macro level of human existence: globalization, the spread of multinational corporations and the outlining of world organizations (Giddens, 1996). Therefore, the British sociologist considers that, in the post-traditional world in which we live in, personal identity has become a reflexive project, which involves a constant review of a set of biographical narratives. These biographical narratives constitute our discourse about who we are and how we got to where we are. Personal identity, in Giddens view, is not a set of observable characteristics of a person, but the reflexive way in which that person understands its biography.

According to social identity theory, conceived by Henri Tajfel, people define themselves in terms of both individual identity, and the multiple social identities they possess. Personal identity is created in interpersonal conditions, which are related to each person's individual experiences, and social identity is defined by Tajfel as "part of an individual's self-concept which derives from the perceived membership of a social group, together with the value and emotional significance that he gives this status" (Tajfel, 1981: 225).

Whether we start from a universalistic theory of "identity", such as that set out by Habermas or a theory of sociological origins, as that outlined by Giddens, or the social-psychological conception of Tajfel, we see that there are few common elements. These relate mainly to the fact that identity should not be conceived as being static, but dynamic, for all forms of identity involve a continuous process of development, and to the idea that this is a complex concept, which has a symbolic structure, more or less integrated, with temporal dimensions (past, present, future) providing individuals certain skills, to ensure continuity and consistency to the community they belong to. (Jacobs, D., Maier, R., 1998:15)

An important role in the process of forming a person's identity it is played by the way "others", members of the in-group or the out-group, defined it. Thus the

concepts of individual identity and social identity are interconnected, and their research cannot be conducted separately. Shaping an identity includes both self-identification and categorization, because an individual, as social actor, can redefine its identity by relating both to his own experiences and the roles he fulfills in the social groups that he is in.

## 1. SHAPING THE EUROPEAN IDENTITY

Social identity refers to the existence of a community sense among members of the same social system. Thus this type of identity is manifested towards a group, a collectivity or an organization of national or supranational level. Regarding social group, its members are bound by the existence of different types of relations, the main purpose being to respond to their objective or subjective needs. The collectivity is an environment in which individuals share certain rules or principles, but the interaction is lacking. Organizations are social formations, created with a specific purpose, to which achievement are established means of decision, execution and control (Enache, 2006:59). The European community is hard to fit into these categories of social existence, because it can be considered a collectivity insofar as it contains rules and common principles for its citizens, but also has an organizational dimension, being established to impose Europe on the world map. Therefore the European identity is not a finished concept and cannot be treated in the same way as national or regional identity.

When we talk about European identity we face the inevitable distinction between academic meaning given to this term and the one used in public debates. In public discourse the concept is used to justify the need for legitimizing policies undertaken at European level and in the academic environment the term is studied to establish its underlying principles and the types of behavior that it embodies.

Research conducted on the concept of European identity include a wide range of fields such as sociology, social psychology, European integration studies, hermeneutics, political science etc. And each of these areas has had an impact on how this notion came to be perceived in academia. Thus the main directions followed in the study of European identity are: factor analysis of the process of forming a community consciousness among the European population, from a theoretical perspective; social-psychological research of individuals availability to consider themselves members of the European Community and examination of the correlation between the citizens` degrees of identification with the EU and their position towards integration.

The first publications appeared on the subject, namely Daniel Lerner's article entitled "Security, Nationalism and the Crisis of European Identity" (1962), published in *Public Opinion Quarterly Review*, followed by the work of Ronald Inglehart "Cognitive Mobilization and European Identity" (1970), debated the problem of what form should European identity take and the report, which may be

established, between it and national identity (Boehnke, K., Fuss, D. in Wallace, C., Strømsnes, K, 2007:94). In time, this preoccupation has turned into a necessity to outline the dimensional structure of this concept. Thus, starting with the 1990`s, accent falls on defining European consciousness appealing to social identity theory, emitted by Henry Tajfel, according to which people tend to define themselves, both in terms of individual identity as well as their multiple social identities. Following this direction, research on European identity has emphasized the idea of its several dimensions: cultural, political, economical, social etc.

Thus there were developed the “self-interest theories” (Diez Medrano, 2003:23), which are based on the idea that individuals are informed about the choices they make, and when they decide to identify with the European project, they do it as a result of cost-benefit calculation ( Gabel, 1998; Hooghe & Marks, 2004; McLaren 2002; McLaren, 2006; Fligstein, 2008). Also there are studies who reveal that the citizens of the member states will tend to create an attitude towards European integration process and European identity based on the way in which their voting party related to it (Inglehart, R., 1970, Bergbauer, 2010). The cultural dimension of the European identity has been one of the most studied aspects of this concept, considered to be the strongest binder of the European population. Proponents of this idea provide as argument the common history of the Old Continent, based on the Greco-Roman heritage, Christianity, Enlightenment, the birth and development of democracy and human rights (Risse, 2010, Sassatelli, 2009, Stråth 2002). This approach, however, presents a risk to produce alienation or isolationist tendencies among the Member States.

For authors who have focused on the study of European political identity, emphasizing the importance of the integration process represents the main starting point, as the political aspect of this type of identity refers mainly to the European Union and its institutions. To facilitate the operationalization of the concept of European political identity, Michael Bruter resorted to outlining two dimensions of it: civic and cultural (Bruter, 2004: 23). Therefore during his research, that he carried out between 2003-2004, he monitored how these two components can interact in the views of Europe`s citizens. „If political identities can be defined as the elements of an individual`s identity that relate to a formalised political community, understanding political identities implies a need to understand what those formalised communities might predominantly represent in the imaginary of an individual.” (Bruter, 2004: 24). In this regard it could be mentioned Juan Diez-Medrano's study on the availability of the European population to support European integration (Diez-Medrano, 2003:12). In it the author has highlighted a number of common elements that individuals appeal to when talking about the European Community, managing, in this way, to frame the concept of European identity. These elements refer to: a common market, an area of free movement of persons and goods, an intense bureaucracy and a defender of peace on the continent.

The multitude of aspects that make up the concept of European identity indicates the fact that this is a fluid term, directly proportional to the effects that the European project` development has on the citizens of the Member States. Also the variety of relations that the European Union has had, throughout history, with the states that it came into contact, influenced the way in which this supranational organization has built its image abroad as well as towards its own citizens. And many times these images were not convergent, which made even more complex the structure of the European identity notion.

## **2. THE OTHER IN THE CONSTRUCTION OF EUROPEAN IDENTITY**

The substantiation of European identity is closely linked with the relations that the European Community has with its neighbors and partners, since the image of a United Europe, on a global level, was built also on the perceptions that others have of it.

One of the oldest partners of Europe is the United States of America, with who has a long history of cooperation, starting with the European Recovery Programme announced by the U.S. Secretary of State, George Marshall, in 1947. But if in the fields of economic, security and maintaining global peace and stability, the U.S. and E.U. are working together on several fronts, in terms of human rights, foreign policy and environmental protection, there are certain disagreements between the two parties. The history of diplomatic relations between the E.U. and the U.S. reveals the fact that the European Community was born, also, as a counterweight to the political, economic and military power of the U.S., so as an effect of the manifestation of this power the European organization has created a common market, currency and foreign policy. Iver B. Neumann stated that “the United States has come to constitute a model for how to live, a model that in several key aspects stands in direct opposition to the European way of life.” (Neumann, 2006:13). The author talks about the American way of relating to the world, which is dominated by the idea of imposing a particular vision on the political, economic and sometimes cultural system that needs to be implemented worldwide, as demonstrated by the military interventions of the United States in countries such as Iraq or Afghanistan, interventions that have been vehemently contested by European leaders. The European Way of Life is stipulated through the European Union's motto:” Unity in Diversity”, which emphasizes the principle of unity in ensuring peace and prosperity on the continent and that of respect for cultural, traditional and linguistic differences of Member States.

Another important interlocutor of Europe is Russia. Although the two entities have common roots, their development recorded different stages towards democratization, so that the Russian state tends to control many of its society`existential planes, while the European democratic tradition focuses on restricting

the influence area of state authority. The relationship between Russia and Europe is often one of teacher and learner, as Europe has assumed the role of indicating to its Russian partner the paths towards democratization and the implementation of capitalism. But Russia does not seem to have fully assumed the role of apprentice, because it hasn't embraced the European way of defending human rights as it continues to undermine the ethnic minorities status. Although often manifested itself as a capricious child, the Russian Federation realized, through its leaders, the importance of its partnership with the E.U. in order to create a real opposition to the U.S.

Turkey is seen as a long-standing Other for Europe, although it played a very important role in outlining the European space, and as a divided country because of the political and social cleavages within it. In the same time, at the E.U. institutional level, the case of Turkey's candidacy is a divisive one because there are those who reject its accession in a radical way, those who advocate for maintaining the partnership with Turkey and those who support its bid for membership. This cleavage is projected on to the diplomatic relationship of Europe with the Turkish society and slows the process of negotiation between the two entities (Kylstad, 2010:5). Turkey's accession to the European Union is a sensitive issue for Member States, the opposition to this endeavor is forming around three main arguments: geographical, historical and religious.

From the geographical point of view, those who do not consider appropriate the integration of the Turkish state in to the European Community claim that Turkey it is not placed on the "old continent", although Europe's borders have never been accurately outlined and for this reason the name of Eurasia has been naturalized. In this respect Kalypso Nicolaidis argued in his article "Turkey is European for Europe's sake": "Whether we consider regions or provinces, lifestyles or demographic statistics, the Turks are, sociologically, Europeans [...]." (Nicolaidis, 2004: ). Also we cannot talk about the history of Europe without including Turkey, the heiress of the Byzantine and Ottoman Empire that has targeted her development towards West, with the modernization undertaken by Kemal Atatürk in 1923.

The religious aspect of Turkey's accession is the most used one in the public debates on this theme, being considered that this country represents a brand of Islam. So the main danger in this situation would be the spread of Muslim religion throughout the European organization, the final result being the Islamization of Europe. But it must not be ignore the fact that currently in the European Community there are already 10 millions of Muslim residents and citizens, which have been integrated into the communities that they are living in. Islam has been a redoubtable opponent for Europe in a period in which the only binder of the states in the European space was Christianity, in defense of which there were undertaken various military actions against the "pagans". The relationship with the Ottoman Empire was a complex one, to the extent that for five centuries the latter occupied a quarter of the European space, managing to establish itself in the relations of power from the

European level and finally “being recognized as a permanent part of the European balance of power” through the Treaty of Paris from 1856 (Neumann, 1998: 40). Although the effects of the Ottoman expansion toward the European continent remained in the common memory of Europeans, which explains, to some extent, their reluctance against Turkey’s accession to the European Union, yet the Turkish state’s efforts towards democratization and modernization, made for 90 years, cannot be underestimated, nor the role it plays today in the Middle East.

### **3. THE CONSOLIDATION OF TURKEY’S ROLE IN THE MIDDLE EAST**

Since the Ottoman Empire, relations with the European continent were considered extremely important, to the extent that Europe was a constant inspiration on the way that economic and technical development can be achieved. To reach the goal of the Empire’s modernization, so important in maintaining its borders, it was proceeded to its Europeanization. Thus writing the first constitution in 1874 meant the establishment of a constitutional monarchy and a parliamentary system, which will be considered later an important step asserting the supremacy of law (Özcan, 2010: 34)

With the collapse of the Ottoman Empire and the establishment of the modern Turkish state in 1923, Europeanization has been used as a way of transition from a theocratic system to a secular national state, in which political power was no longer owned by one person but it was divided between the three pillars of the democratic society: parliament, government and justice. During this period, following the road to modernization meant removing the traditions and practices of the East, so that a certain isolation of Turkey from the Arab world helped strengthening its role as a mediator between two worlds.

The efforts made by the Turkish Republic towards modernization and democratization were officially recognized by the European Council’s decision, taken in Helsinki on December 1999, to grant it with the status of candidate country. This meant the beginning of a long road towards the European Union accession, which primarily involves meeting Copenhagen criteria. Thus the Turkish Parliament has approved 14 packages of reform, which included the abolition on death penalty and looking for solutions in the Kurdish issue. (Özcan, 2010:39) Some of the reforms adopted were referring to freedom of expression and association, lifting the prohibition on broadcasting and education in other languages, regulation of political parties’ system, but one of the most important measures has been changing the structure and regulation of the National Security Council by increasing the number of civilians and reducing the military participants. All these reforms have shown the intensity with which Turkey has assumed the status of candidate member of the European Union and led to deepening the democratization of the Turkish political system.

But the outbreak of the war in Iraq has produced major changes in Turkish foreign policy and a certain alienation from Europe as the Turkish authorities turn towards Middle East. The first step that Turkey took was to strengthen relations with its direct neighbors: Iran, Iraq and Syria and then to mediate between major political actors like Israel, Syria and Lebanon and their external supporters Hamas, Fatah, Iraq, Iran and the USA (Kahraman, 2011:5). With Syria, Turkey managed to conclude a bilateral agreement on free trade and create a space for free movement of persons, while contributing to the removal of the isolation that the Syrian state has undergone by the West part of the world.

Regarding relations with Iran, there have been several factors that have contributed to the rapprochement between the two sides. First the rise into power of the Justice and Development Party has decreased the ideological differences between the two countries, and then Turkey's desire to build itself an independent external image from the policy pursued by the USA gave it credibility with the Iranian authorities. And also the possibility that an independent Kurdish state could form, once the war in Iraq started, has led to better cooperation between the two states, which thus have seen their territorial integrity threatened.

The general principles that were the foundation of the Turkish foreign policy in Middle East concerns regional integration, conflict resolution and removal of any factors that may trigger such conflicts. But these principals were inspired by the elements of the European foreign policy and the process of Turkey's accession to European space. This is why the Turkish state has end up being considered a regional power and a role model, for the Arab states who went through changes produced by the revolutionary movements from 2011, because of its ability to combine the democratization and secularization of the state with a social context dominated by Islam. The big challenge for Turkey in the new structure of the Middle East will be to establish new relationships with reformist forces.

## CONCLUSIONS

Turkey's candidacy is a test case for the European project, as the way it is managed reflects who we are and who we want to be as United Europe. So if the main goal of the EU is to play a major global role in the economic field and to strengthen its international image, it will have to capitalize its diversity assets, for each Member State will strengthen its relations with neighbors on behalf of the geographical and cultural Europe and Turkey in this regard will be the gateway of Europe towards the Middle East.

At the same time, the quality of candidate for membership in the European Union has helped to strengthen Turkey's role in Middle East, as this quality gave it the opportunity to act as a mediator between the two worlds.

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## THE EUROPEAN UNION AND THE MIDDLE EAST: AN UNUSUAL PARTNERSHIP

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**Abstract:** *The relationship between the European Union and the Middle East is very complex. On the one hand, because the European Union, as one of the most important economic powers in the world, has various commercial transactions with the Middle East countries, and on the other hand, because the European Union's aim is to become an important global player, it wants to exert a positive influence in this region. The purpose of this paper is to analyze the way in which the European Union manages the relationship with the Middle East, based on the two aspects. To achieve this goal, the study uses both theoretical and empirical data in the recent years. The paper is divided into two parts: an analysis of the commercial transactions of the EU with the Middle East and an analysis of the European Union foreign policy in the Middle East. The findings revealed that there is a contrast between the economic power of the European Union and its foreign policy. More specifically, the European Union is having problems acting as a credible player in the Middle East region. It is imperative for the political and social relations between the two entities to strengthen, both for the benefit of the European Union and of the Middle East.*

**Keywords:** the European Union, the Middle East, trade, foreign policy, democracy promotion

### INTRODUCTION

The definition of the Middle East has a geo-cultural dimension rather than a geographic one. The Middle East lies between Egypt and Iran and includes River Nile and Mesopotamia. Due to its geo-cultural characteristic, the Middle East includes countries from both North Africa and South-West Asia. This means that the Middle East is a cultural area; it is more than an area with just physical borders.

According to World Trade Organization (2012), the countries that belong to the Middle East are Bahrain, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, The Palestinian Territories, Qatar, Saudi Arabia, Syria, the United Arab Emirates and Yemen. Still, in other studies, the Middle East also includes Turkey and Egypt.

Because of the geographical proximity, in time, Europe has been interested in the situation of the Middle East countries, as well as it has been affected by the events in the region. Also, the historical ties between Middle East and some European countries explain why the European Union has turned its attention to this region. The current EU members: France, the UK, Italy and Spain had colonies in the Middle East in the past. Presently, the colonial past of some EU member states has turned back as immigration to these countries (Dagci, 2007, p. 179).

At the same time, Middle East is the world's most important energy-producing region, holding the largest proven oil and natural gas reserves. In addition to these geological advantages, most Middle Eastern countries enjoy close relations with the member states of the European Union. Moreover, the European Union is the main trading partner for several Middle Eastern states, with oil representing a large and growing proportion of this trade volume (Bahgat, 2006, p. 973).

In short, the geographical proximity and Middle East's oil reserves explains the EU's various commercial transactions with the Middle East countries. However, the trade relation is not the only one between the European Union and the Middle East. Since the European Union wishes to be a leading global political actor, it has paid a special attention to its neighbours in the Middle East. For this purpose, the EU's foreign policy in Middle East has been directed toward the promotion of Human Rights, rule of law and democracy. In fact, the EU's influence or potential as a global actor can, to a large extent, be appraised by this capacity and commitment, and resulting success or otherwise, in achieving declared aims of democratization and improvements in human rights (Wood, 2009, p.114). Democracy promotion has gradually established itself as a central component to European foreign policy, expressed through an array of different instruments.

On the other hand, Europe has showed greater willingness lately to play a larger part in the Middle East's most protracted conflict, that of Israel and Palestine. It can be concluded that the European Union has invested great efforts to solve the conflict in the Middle East. But the Middle East conflict is perhaps the best example of disparity between the found costs and results achieved in the peace process (Musladin, 2012, p.68).

In any case, it is important that the European Union, through its involvement and position, is connected to the situation of the Middle Eastern countries, as the recent events in this region have underlined, willing to attain a role and be an influential actor in the region.

## **1. THE EUROPEAN UNION AND ITS ECONOMIC RELATIONS WITH THE MIDDLE EAST**

### **1.1. The European Union and the trade with the Middle East**

The Middle East constitutes a cultural geography in which nations from various ethnic, religious backgrounds have been living together. At the same time, these nations have different social, economic and political conditions. Due to these different conditions, the European Union has been implementing its policies by three instruments: the European Neighbourhood Policy, Cooperation with the Cooperation Council for the Arab States of the Gulf (GCC) and Cooperation with Iraq, Iran and Yemen.

#### *1.1.2 European Neighbourhood Policy*

The European Neighbourhood Policy (ENP) was developed in 2004 and includes political association and deeper economic integration, between the European Union and 16 of the EU's closest neighbours. The Middle Eastern country members of this partnership are Egypt, Israel, Jordan, Lebanon, the Palestinian Authority and Syria. In the case of Turkey, because of its candidacy to full membership of the European Union, the country is not a member of the European Neighbourhood Policy and that is why its trade with the European Union will not be analyzed.

The ENP is mainly a bilateral policy between the European Union and each partner country. In 2010-2011, the European Union reviewed the European Neighbourhood Policy and strongly focused on the promotion of deep and sustainable democracy, accompanied by inclusive economic development.

According to the European Commission (2012), the European Union has a commercial relation with Middle Eastern countries included in the European Neighbourhood Policy, as follows:

- Between the EU and Egypt there is an Association Agreement, in force since 2004, that establishes a free-trade area with the elimination of tariffs on industrial products and significant concessions on agricultural products. Also, Egypt is a major trading partner for the EU in the Southern Mediterranean region;
- The trade relations between the EU and Israel are based on the Association Agreement, which entered into force in June 2000, aiming to provide an appropriate framework for political dialogue and economic cooperation between the EU and Israel;
- Between the EU and Jordan an Association Agreement was concluded, in force since May 1<sup>st</sup> 2002, that establishes a Free Trade Area between the EU and Jordan over 12 years;

- The EU-Lebanon Association Agreement sets that Lebanese industrial as well as most agricultural products benefit from free access to the EU market;
- Between the EU and the Palestinian Authority there is an Interim Association Agreement on Trade and Cooperation, since 1997. Due to difficult economic situation and restrictions on movement and access, trade with the EU is very limited;
- Bilateral EU-Syria relations are governed by the Cooperation Agreement signed in 1977. However, the signature of an Association Agreement between the EU and Syria has been put on hold by the EU due to the internal situation in Syria.

**Table 1. European Union, Trade with the Middle Eastern countries included in the ENP (Egypt, Israel, Jordan, Lebanon, the Palestinian Authority, Syria)**

<b>Period</b>	<b>Imports (billions of euro)</b>	<b>Exports (billions of euro)</b>	<b>Balance (billions of euro)</b>
<b>2009</b>	20.2	33.7	13.5
<b>2010</b>	24.7	40.1	15.4
<b>2011</b>	28.4	41.8	13.4

Source: Eurostat

According to the data in Table 1, bilateral trade between the EU and the Middle Eastern countries included in the ENP has been increasing steadily over the past years. Also, for most of these countries, the European Union is their first trading partner. They export energy goods, chemicals, mineral products, machinery and mechanical appliances, transport equipment in the European Union, while importing machinery, mechanical appliances, chemicals, transport equipment.

### *2.1.2. Cooperation with the Cooperation Council for the Arab States of the Gulf (GCC)*

The Cooperation Council for the Arab States of the Gulf (GCC) is a regional organization, with 6 members: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates, set up in 1981. The EU established bilateral relations with the GCC countries through the 1988 Cooperation Agreement, intended to (European Commission, 2012):

- strengthen stability in a region of strategic importance;
- facilitate political and economic relations;
- broaden economic and technical cooperation;

- broaden cooperation on energy, industry, trade and services, agriculture, fisheries, investment, science, technology and environment.

Besides that, the GCC is the EU's fifth largest export market (almost €75 bn's worth of exports in 2011), and the EU is the grouping's biggest trading partner, with trade flows totaling €130 billion, or 13.5% of the GCC's global trade.

**Table 2. European Union, Trade with GCC**

<b>Period</b>	<b>Imports (billions of euro)</b>	<b>Exports (billions of euro)</b>	<b>Balance (billions of euro)</b>
<b>2009</b>	22.7	57.5	34.2
<b>2010</b>	35	65.3	30.2
<b>2011</b>	56.9	72.9	15.9

*Source:* Eurostat

As we can see from Table 2, trade with the GCC has increased in the past years. The European Union mainly exports machinery and transport materials to this region, while it imports fuels and derivatives.

### *2.1.3. Cooperation with Iraq, Iran and Yemen*

The European Union has different cooperation agreements with Middle Eastern Iraq, Iran and Yemen.

On the one hand, although there is a practical cooperation between the European Union and Iran, this is currently below potential. Negotiations for a Trade and Cooperation Agreement between the EU and Iran have been put on hold since August 2005, when Iran started to intensify its nuclear activities. Also, because of Iran's proliferation-sensitive nuclear activities, the EU's trade with Iran is subjected to some restrictions, for instance: banning the exports and imports of arms, goods and technology related to nuclear enrichment, certain chemicals, electronics etc.

On the other hand, the European Union has signed, in May 2012, a Partnership and Cooperation Agreement (PCA) with Iraq, which is, in fact, a commercial agreement. Through the Partnership and Cooperation Agreement, the European Union aims to (European Commission 2012):

- Facilitate Iraq's engagement with the international community and particularly with the EU to the benefit of the internal and regional stability process;
- Stimulate and anchor ongoing institutional and socio-economic reforms;

- Contribute to the socio-economic development of Iraq and to the improvement of living conditions in the country;
- Promote bilateral trade relations in accordance with the WTO principles;
- Ensure a minimum level of predictability, transparency and legal certainty for economic operators;
- Improve the trade arrangements between Iraq and the EU.

As a result, Iraq is an important trading partner in the Middle East and a key strategic energy partner for the EU.

Last, but not least, the relation between the European Union and Yemen is currently governed by a Cooperation Agreement, signed in 1998, focusing on commercial, development and economic issues.

**Table 3. The European Union, Trade with Iran, Iraq and Yemen**

<b>Period</b>	<b>Imports (billions of euro)</b>	<b>Exports (billions of euro)</b>	<b>Balance (billions of euro)</b>
<b>2009</b>	15.8	14	-1.8
<b>2010</b>	21.8	15.3	-6.5
<b>2011</b>	26.2	15.2	-11

*Source: Eurostat*

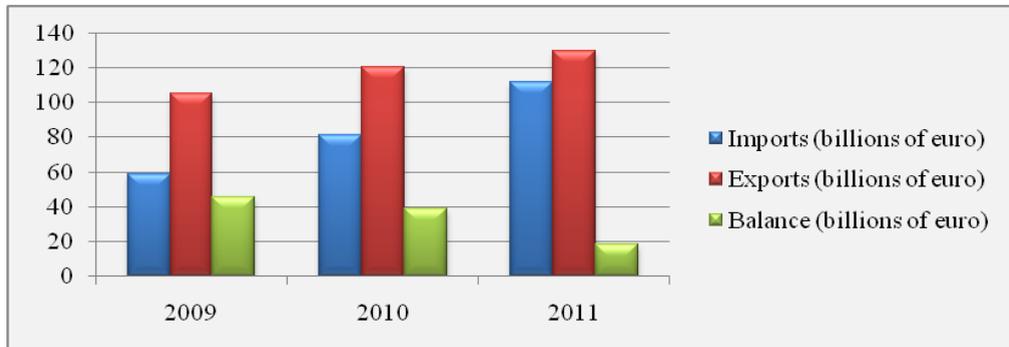
To sum up, the European Union has very important trade relations with the Middle Eastern countries. Middle East is a major trading partner for the European Union with total trade amounting to approximately €241.4 billion in 2011.

**Table 4. European Union, Total Trade with Middle East**

<b>Period</b>	<b>Imports (billions of euro)</b>	<b>Share of total EU Imports (%)</b>	<b>Exports (billions of euro)</b>	<b>Share of total EU Exports (%)</b>	<b>Balance (billions of euro)</b>	<b>Total Trade Value</b>	<b>Share of total EU Trade (%)</b>
<b>2009</b>	58.7	4.9	105.2	9.6	45.9	163.9	7.1
<b>2010</b>	81.5	5.4	120.7	8.9	39.1	202.2	7.1
<b>2011</b>	111.5	6.5	129.9	8.4	18.3	241.4	7.4

*Source: Eurostat*

According to Table 4, the Middle East is covering more than 7% of EU's trade volume. That shows that the European Union and the Middle East have an important trade relation. Consequently, at least in economic terms, there is a strong partnership between the two regions.

**Figure 1. European Union, Trade with Middle East**

Source: Eurostat

## 2.2. The European Union and the dependence of the Middle East oil

Oil is the fuel that drives the economy and its regular supply is vital for sustainable, economic and social development of countries. The world is heavily dependent on oil for meeting its energy requirements. Oil reserves are unequally distributed, with over 60% of the world's oil reserves concentrated in the sedimentary basins of the Middle East (Gupta, 2008, p. 1196). The European Union countries have very little indigenous crude oil production and that is why the European Union has very high dependence on imports.

Nevertheless, because the European energy demand and import dependence continues to increase, it is in the best interest of the European Union to maintain a good relation with the Middle Eastern countries oil suppliers.

**Table 5. Main origin of crude oil, EU-27, 2001-2009 (% of extra EU-27 imports)**

<b>Russia</b>	25.5	29.2	31.1	32.2	32.5	33.4	33.2	31.4	33.1
<b>Norway</b>	20.1	19.4	19.2	18.8	16.9	15.5	15.1	15.1	15.2
<b>Libya</b>	8.2	7.5	8.4	8.8	8.8	9.2	9.8	9.9	9
<b>Saudi Arabia</b>	10.8	10.1	11.3	11.3	10.6	9.1	7.2	6.9	5.7
<b>Kazakhstan</b>	1.6	2.4	2.7	3.4	4.5	4.6	4.6	4.8	5.4
<b>Iran</b>	5.9	4.9	6.4	6.3	6.1	6.2	6.2	5.4	4.7
<b>Nigeria</b>	4.8	3.5	4.3	2.6	3.2	3.6	2.7	4	4.5
<b>Azerbaijan</b>	0.9	1	1	0.9	1.3	2.2	3	3.2	4
<b>Iraq</b>	3.8	3	1.6	2.2	2.1	2.9	3.4	3.3	3.8
<b>Others</b>	18.3	18.8	14.2	13.4	14	13.2	14.7	16.1	14.6

Sursa: Eurostat Yearbook 2012

By analysing the information presented in Table 5 we can see that the main Middle East countries, source of crude oil imports in the EU, are Saudi Arabia, Iran and Iraq, with 14.2% of the EU imports, in 2009. However, in the past years, the EU's dependence on the Middle East oil has decreased from 20.5 % in 2001 to 14.2% in 2009.

As it has been noted, Europe has major economic interests in the region, both as a consumer of the Middle Eastern oil and as a producer of industrial goods, weapons and related military technology for which the Middle East constitutes a lucrative market.

### **3. THE EUROPEAN UNION AND ITS FOREIGN POLICY IN THE MIDDLE EAST**

The European Union has developed its foreign policy in the Middle East region through the promotion of Human Rights, rule of law and democracy. However, these values are very difficult to assimilate in the Middle East because some of them contradict the cultural and religious precepts that exist in this part of the world. At the same time, oil distribution has divided these states into two categories: countries with a strong economy and underdeveloped countries that depend on external assistance. Also, the EU is based on and promotes the principles of conflict prevention and resolution, internally as well as in its external relations.

Democracy promotion as a foreign policy goal has been widely used by the European Union in the Middle East, because the democracy deficit has been greatest in this area, despite some minor political reforms introduced.

The European Union's democracy-promotion strategy has been characterized by a long-term, cautious approach adopted for the sake of preserving short-term stability. Rather than directly confronting regimes in the region, the EU democracy-promotion programs have relied on more indirect methods, such as increasing support for "democratic values" and promoting cross-cultural dialogue. In fact, the European support in the Middle East is oriented notably towards cultural, education, development and governance projects. In the region's most closed societies – Syria, Libya, Saudi Arabia – the European governments have failed to establish a significant foothold for political aid work. At the same time, in several Gulf States, the largest share of European aid still goes to security forces with highly questionable human rights records.

The European Union has promoted democracy in the Middle East countries, through the European Neighbourhood and Partnership Instrument (ENPI) and the Development Cooperation Instrument (DCI). While ENPI engages with Southern Mediterranean countries and has an annual operational budget of €1.6 billion, the DCI deals, among other regions, with the Gulf countries, and has an annual budget of €1.4 billion (European Commission, 2012). However, the DCI applies only to Iraq, Iran and Yemen, considered to be Gulf Nations. As a result, the Gulf region has

been marginalized. For example, the Arab Spring, sparked demands for social and political change in the region and governments responded to these demands with financial gifts as in Oman, superficial reforms as in Saudi Arabia or coercive repression as in Bahrain. In this case, the European Union has failed to properly promote democracy in these needing Gulf countries.

Also, regarding the human rights and the rule of law, the European Union has helped the needy Middle East countries through financial aids. For instance, the EU has been one of the largest donors in the support of Iraq's political and electoral process with over €94 million since 2004, including deployment of an Electoral Assessment Team for the general elections on 7<sup>th</sup> March 2010. The EU has also watched with concern the situation of refugees from Iraq and internally displaced persons within Iraq. So far, the total support to the refugee crisis has amounted to more than €188 million. Also, in the case of Syria, the European Union has provided in 2012 € 150 million in humanitarian assistance and under the ENPI (European Neighbourhood Policy Instrument) the EU has contributed with around € 80 million to address longer term needs of the Syrian population (support to civil society, Human Rights defenders, refugees). At the same time, the European Union is the largest donor to the Palestinians.

What is more, the European Union, through the ENP, has offered some key recommendations to some Middle Eastern countries, related to democracy promotion. According to the European Commission (2013), while the recommendations connected to the election process were acted on in countries like Palestine and Jordan, insufficient progress was made on the key recommendations on the freedom of association, expression and assembly, a free press and media, the rule of law and an independent judiciary and the fight against corruption, in most of the Middle Eastern countries included in the ENP.

Despite that, the important thing is that the European Union has made important progress by laying out a plan of action for promoting democratic reform in the Middle East. Although for some Middle Eastern countries the process of the EU's democracy promotion has registered less success, in many others the European Union has had a positive influence.

Finally, regarding the recent violent implosion of Syria and the recent war between Israel and Gaza, the European Union has repeatedly condemned the ongoing human rights violations, decided several rounds of restrictive measures against the Syrian regime and provided humanitarian aid to the refugees, meaning that the European Union is still strongly connected to the Middle East. Although it is obvious that neither the EU nor the international community can maintain peace and security in the region, the European Union at least should be prepared to take concrete measures for a secure environment in the Middle East.

## 2.1 The EU and the Middle East Peace Process

The Middle East Peace Process concerns the resolution of the Palestinian-Israeli conflict, this being a strategic priority for the European Union. The EU's objective is a two-state solution with an independent, democratic, viable Palestinian state living side-by-side with Israel and its other neighbours. However, the European Union is constrained by the fact that the Union is not a unified actor. Achieving a common policy on any issue requires the harmonization of twenty seven different positions.

The role played by the European Union in the Middle East Peace Process has been most visible by providing foreign aid to the Palestinian institution-building and training to the security sector reform. The European proposals for the Middle East Peace seek to reconcile the national aspirations of the Israelis and Palestinians through territorial compromise. The formula for conflict resolution embodied in the EU's official pronouncements would satisfy some, but not all Israelis and Palestinians for at least two reasons. Firstly, on the Palestinian side, acceptance of a mini state in the West Bank without the removal of at least some of the Jewish settlements would be political suicide and would not make for a 'viable' state. Secondly, the religious nationalists in the forefront of those Israelis committed to remaining in Jewish settlements in the West Bank will resist evacuation to make way for a Palestinian state. Furthermore, in terms of clearing out key settlements from the West Bank, this solution may portend increased conflict as opposed to peace.

With respect to the Palestinians, the European Union is a strong supporter of its self-determination, financing the creation of a Palestinian state. Even though European aid has positive effects in the area, this is still insufficient to overcome substantial impediments to the realization of a viable Palestinian state. PEGASE is the main instrument to channel European and international assistance as a contribution to the building of the Palestinian State. PEGASE supports a wide range of activities among which governance (rule of law, security), social development, economic and private sector development and public infrastructure development. For instance, during 2004-2010, Palestine has received through PEGASE 2.923 billion EUR, this amount being mainly directed at direct and indirect financial support to the Palestinian Authority, as well as to UNRWA (United Nations Relief and Work Agency for Palestine Refugees in the Near East), humanitarian and food aid.

Meanwhile, the European Union uses three ways to influence Israel in the conflict with Palestinian. On the one hand, the European Union uses political dialogue, the EU's most frequently used means of influence. However, in time, the political dialogue has been rather ineffective in swaying Israeli policies in the conflict. On the other hand, Israel and the European Union can cooperate through the ENP, which allows the EU to influence Israel through the use of positive ex ante conditionality. Despite that, the European Union has proved reluctance in engaging in such conditionality. Also, the European Union can influence Israel through

European and international law. According to this, the European Union could withdraw benefits that have been granted to Israel in the context of bilateral agreements, in the event of a material breach thereof. Nevertheless, the EU has promoted cooperation with Israel and has never taken into consideration the partial or total suspension of the Association Agreement despite the grave human rights and international law violations perpetrated by Israel.

Moreover, the European Union also participates in the peace process through the Quartet that also includes the United States, Russia and the United Nations. The stated aim of the Quartet is to support the establishment of two states, Israel and Palestine, existing side by side within secure and recognized borders. Over the years, the European Union and the United States adopted a more proactive role than Russia and the UN. The inclusion of the EU within the Quartet was an acknowledgement of the growing political role of the EU in the Middle East Peace Process and the legitimacy of the EU's involvement as a major contributor to funding and institution building (Musladin, 2012, p. 61).

On the whole, it is obvious that the European Union alone cannot establish peace between Israel and the Palestinians. Without doubt, the European Union should work alongside third parties to adopt a comprehensive strategy based on international law and human rights.

## CONCLUSIONS

The European Union has developed a very interesting relation with the Middle East. On the one hand, the European Union is a major trade partner for the Middle Eastern countries, importing oil from the area and exporting a variety of types of industrial goods in this region.

On the other hand, the European Union has always been interested in the political and social environment from the Middle East. The EU's foreign policy in the Middle East has been directed especially towards democracy promotion. But the EU's democracy promotion efforts in the Middle East have been remarkably inconsistent, ranging from committed institutionalized engagement with the Southern Mediterranean to the complete neglect of the Gulf countries. As a result, the European Union has failed to adequately promote democracy in the Gulf region. Therefore, to strengthen its influence in the Middle East, the European Union should firstly define a properly approach in expanding its interaction with the Gulf countries beyond strategic and economic aspects and support popular demand for more democracy promotion.

At the same time, the lack of meaningful progress on the Israeli-Palestinian conflict through the two-state solution, which has been a primary goal of the European Union, has been a huge challenge to the credibility of the EU's international policy. Although the European Union is the largest donor of the

Palestinians, it has only proven to be indirectly effective in the Middle East peace negotiations.

Even though the European Union has funded different kind of programs related to the promotion of democracy in the Middle East, it has not gained significant success yet, one of the reasons being that the EU has generally favored conducting most of its democratic reform activities on a government to government basis.

In conclusion, the role the European Union plays in the Middle East is mainly economic. In fact, the European Union has faced problems in making the leap from gradual changes in the economic process to the tangible results of political reform in the Middle East. However, if the European Union considers alternatives to its model of democracy, taking into consideration and understanding the specific of Middle Eastern societies, it could help these countries even more and have real success in its foreign policy in the area.

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**Session III: The Eastern Partnership  
(EaP) looking forward: achievements  
and future**

## FOREIGN DIRECT INVESTMENTS IN THE COUNTRIES FROM THE EUROPEAN PARTNERSHIP IN THE LAST DECADE

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**Abstract:** *Nations and regions compete between them in order to attract high flows of foreign investments, due to their contribution to the national, regional and local development. Foreign investments contribute to the development of a competitive business environment, representing the main instrument for ensuring economic growth and modernization at national, regional or local level. Foreign direct investments have played an important role in offering supplementary capital for investments in the countries from the former URSS (much needed by these economies), and also have a great importance in the development of these states, in promoting the market economy and competition and contributed significantly to the increased level of competition in these countries. The authors analyzed the evolution of foreign direct investments (FDI) in the six countries that are members in the Eastern Partnership: Armenia, Azerbaijan, Belarus, Georgia, Republic of Moldova and Ukraine over the last decade and, for comparison, Romania and Bulgaria were chosen as they are the newest member states of the European Union. After presenting the FDI inflows and outflows in these six countries, the authors also underlined the evolution of FDI for different types of investments (mergers and acquisitions and Greenfield investment). The last part of the paper presents the main conclusions drawn from the analysis.*

**Keywords:** foreign direct investments flows, mergers & acquisitions, Greenfield investments, attraction index, inward FDI potential index

### INTRODUCTION

The FDI is embraced differently by economies in different stages of development and their impact varies from country to county. This paper analysis the development and trends of FDI in the countries of the Eastern Partnership (Armenia, Azerbaijan, Belarus, Georgia, Republic of Moldova and Ukraine) since the beginning of 2000 and a comparison with the two newest member states of the European Union (Romania and Bulgaria) is done during this analysis.

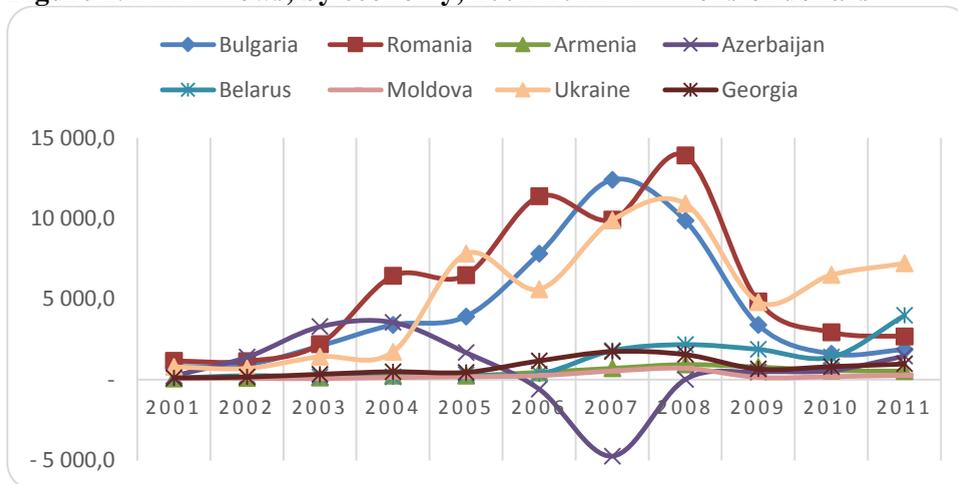
The history of FDI in all these countries is not very long since they gained freedom from the communist regime only at the beginning of the '90s. The investment climate has been challenged by a number of factors, including weak governance and weaknesses in the legal systems. Foreign direct investments represented the main means for covering the lack of own capital. FDI assured the necessary capital and technology for restructuring different sectors of the economy and access to modern technologies, competitive management methods and qualification of the labour force, as well as access to new markets.

The global financial crisis influenced all economies under analysis in terms of the GDP, trade and also foreign direct investments. After a period of rapid and sustained economic growth, the GDP contracted sharply in 2009, but it started to recover in 2010 also the value of goods traded declined also in 2009, followed by a strong rebound in 2010. As concerns the FDI, all countries under analysis were net recipients, but inward FDI was generally lower in 2009 and 2010 than in the pre-crisis years, except for Ukraine. FDI flows in these countries fell due to the decline in investments from the EU countries, the main investors in the region, except for Ukraine. This trend could be noticed also as concerns the market of Mergers and acquisitions, a fact that reflects macro-economic uncertainty and low corporate confidence.

## **1. EVOLUTION OF THE MAIN FDI INDICATORS BETWEEN 2001 AND 2011**

During the last decade, the inflows of FDI for most of the analyzed countries knew a similar evolution with an increase in flows between 2001 and 2007-2008, a sharp decrease in 2009 that continued in 2010 and a little revival in 2011 (higher in Belarus, even more than the two new member states of the EU – almost 4 billion dollars). An exception to this trend has been registered in Azerbaijan which knew an increase at the beginning of 2000 until 2004 (managing to attract more flows than Romania and Bulgaria in 2003 – 0.2 billion USD), followed by a decrease in foreign inflows, with a peak in 2007, recovering since 2008 and succeeding to overpass the inflows of other countries in the region (Georgia, Armenia and Moldova) in 2011. Another exception was Ukraine which, even if it registered an important decrease in the inflows in 2009 (from approximately 11 billion USD in 2008 to only almost 5 billion USD in 2009), it began to attract again foreign investors since 2010.

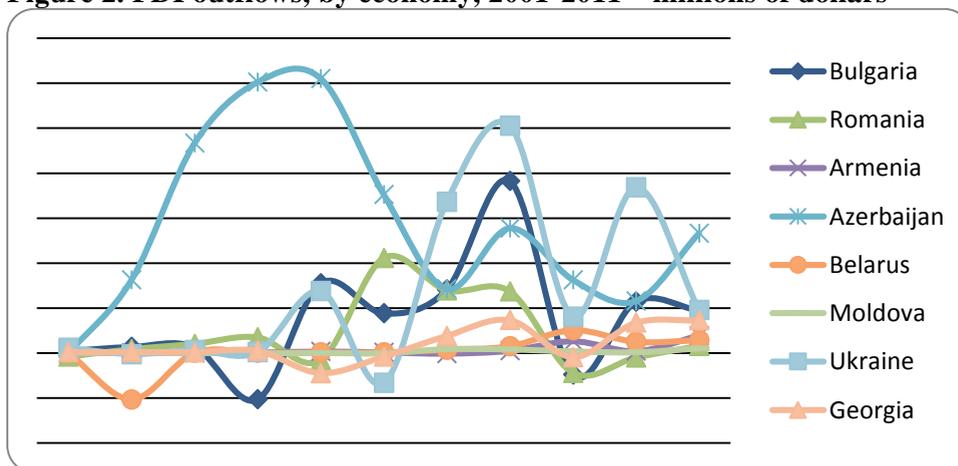
**Figure 1. FDI inflows, by economy, 2001-2011 – millions of dollars**



Source: UNCTAD, FDI/TNC database ([www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics))

Even if the countries in the European Partnership succeeded to attract foreign investments in this last decade, the value of these inflows was lower than the ones in Romania and Bulgaria, with the mentioned exceptions of Ukraine in 2010-2011 (reaching 7 billion USD) and Belarus in 2011 (reaching approx. 4 billion USD). Ukraine even managed to register more inflows than Bulgaria in 2008 and 2009. Ukraine attracted the most inflows in the region and the fewest were registered in Armenia and Moldova.

**Figure 2. FDI outflows, by economy, 2001-2011 – millions of dollars**

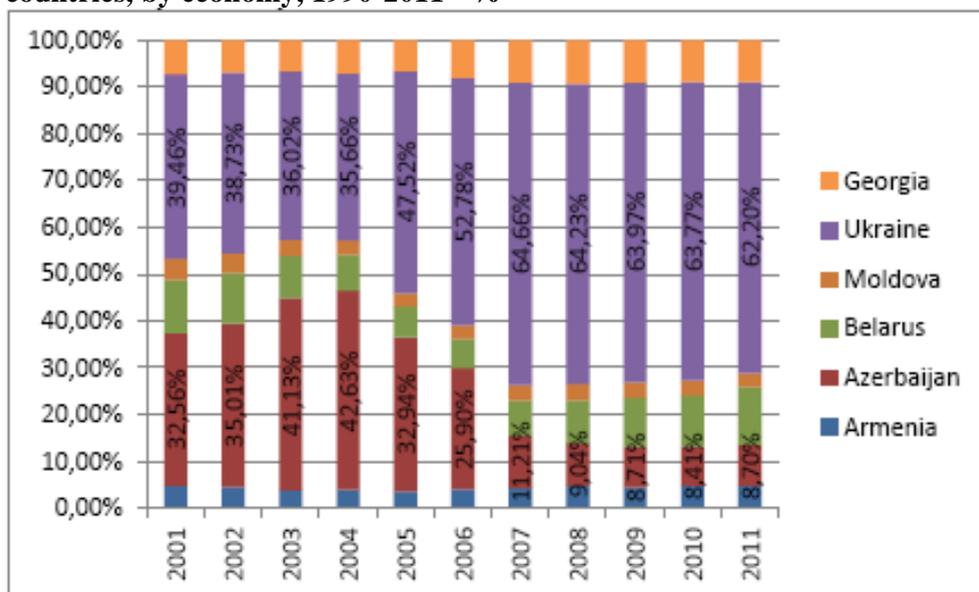


Source: UNCTAD, FDI/TNC database ([www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics))

As concerns the outflows, there were two countries which registered higher values during the last decade in the region, Azerbaijan, especially in the first half of the decade (with a peak in 2005 – 1.2 billion USD) and Ukraine in the second half of the analyzed period, but with important fluctuations, high increases in 2007-2008 (reaching 1 billion USD in 2008) and 2010 (0.7 billion USD) and sharp decreases in 2009 and 2011. These two countries from the region succeeded to overpass even the two new member states, especially after 2007. The lowest outflows in the region came from Belarus and Georgia.

The inward stock both for the new member states of the EU and the countries of the European Partnership recorded increases during the whole period under analysis (for Romania and Bulgaria until 2009) with the exception of Azerbaijan's inward stock which registered a decrease in 2007, but which recovered in the following years. Ukraine is the country with the higher inward stock in the EP and recorded high increases in 2006-2007 managing to surpass the stock registered by Bulgaria, reaching the value of 65 billion USD in 2011, only a little under Romania which registered 70 billion USD in the same year. The countries with the lowest inward stock during the whole decade were Armenia and Moldova with a stock of 5, respectively 3 billion USD.

**Figure 3. FDI inward stock's share in total stock of Eastern Partnership countries, by economy, 1990-2011 - %**

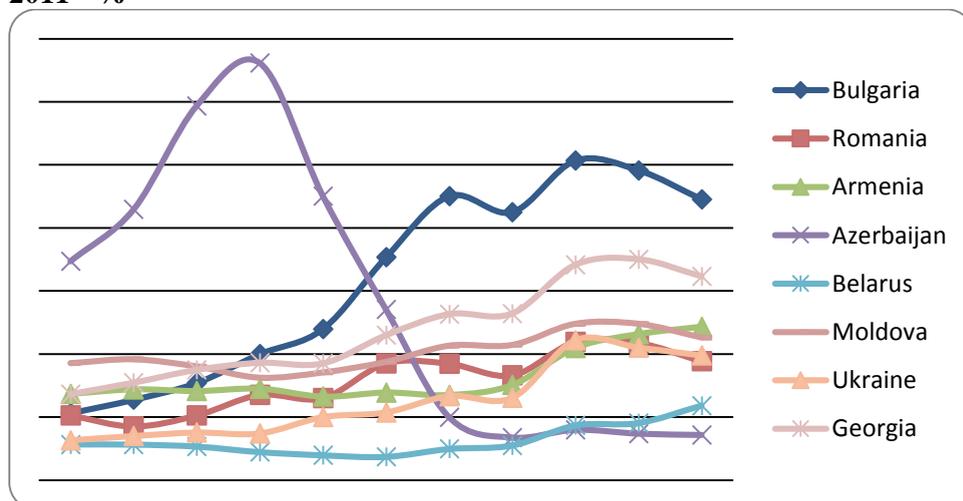


Source: own calculations on the basis of the data from UNCTAD, FDI/TNC database ([www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics))

Taking into consideration the share of the inward stock of the six countries from the Eastern Partnership in the total stock of the region, one could notice that for three of the countries the share remained pretty much the same during the analyzed period: Moldova – around 3%-4%, Armenia – around 4%-5%, Georgia – around 7%-9%. Belarus' share in the total inward stock knew a decrease between 2001 (11.5%) and 2006 (6.6%) and then it began to increase its share again, reaching 12.4% of the total stock in the region in 2011. After an increase in the share of the total inward stock until 2004 (42.6%), Azerbaijan knew a significant decrease in the following years, reaching only 8.7% in 2011. The highest share in the total inward stock of the Eastern Partnership countries was registered in Ukraine during the whole period (except 2003-2004 when it was over passed by Azerbaijan) reaching approximately 62% in 2011.

As one can observe in the figure below, Azerbaijan registered a high share of the inward stock in the GDP until 2004, when it reached 132%, much higher than the share in the other five countries of the European Partnership (between 8.9% in Belarus and 37.2% in Georgia in 2004) and also higher than the share of inward stock in the GDP for Romania (27%) and Bulgaria (40%), followed by a sharp decrease in the share in the following four years (reaching only 13.5% in 2008) and then fluctuated very little between 14% and 16%, the lowest value from all the countries in the region. The highest shares of inward inflows in national GDP were registered in Georgia and Moldova higher even than in Romania and the lowest in Belarus (under 20%).

**Figure 4. FDI inward stock as a percentage of gross domestic product, 2001-2011 - %**



Source: UNCTAD, FDI/TNC database ([www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics))

## **2. GREENFIELD AND MERGERS AND ACQUISITIONS IN THE EASTERN PARTNERSHIP COUNTRIES**

An investing company may choose to make its foreign direct investment either by setting up a subsidiary or associate company in the foreign country, by acquiring shares of a foreign company or through a merger or joint-venture.

Developing countries tend to attract more Greenfield investments than acquisitions, while the opposite situation is present in the developed economies, because developing countries often offer prospective companies tax-breaks, subsidies and other types of incentives to set up Greenfield investments. A Greenfield investment gives the investors the opportunity to create an entirely new organization to its own specification, but, usually, this implies a gradual market entry. Greenfield investments tend to be more integrated with the parent company than acquired companies.

Although Greenfield projects offer the opportunity to preserve and replicate valuable cultures abroad, they require a longer establishment period and more time to build business networks on the local market, thus increasing substantially the external conformity cost. Despite having the benefits of managerial autonomy and full control over the local operations, Greenfield investments present a higher degree of risk as compared to acquisitions because of their liability to newness (Hennart and Slangen, 2008).

The main advantage of the Greenfield investments is the fact that it is much easier to build an organisation culture from scratch than it is to change the culture of an acquired unit. Another advantage is the creation of new production capacities and workplaces and also the fact that the company has complete operational control over its subsidiary. As disadvantages, along with the slower establishment of Greenfield investments, they also present numerous risks: not being able to build relationships with customers, suppliers and administration officials in the new economy.

The reasons that stand behind mergers and acquisitions (M&As) are various: the transaction is seen as profitable or it reduces production costs, increases output, improves the product quality or provides new technologies or even new products. M&As represent a dominant strategy at corporate level.

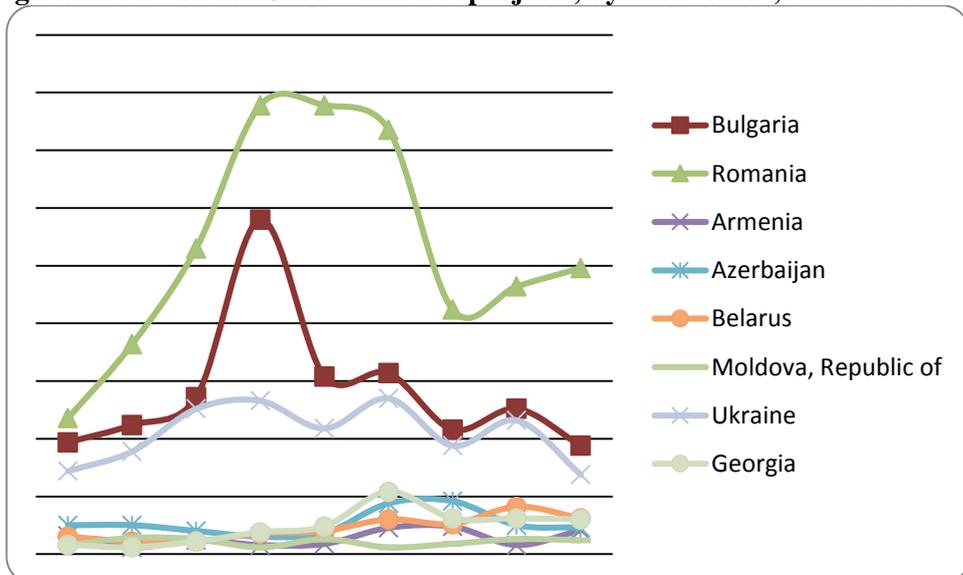
The main advantages of M&As are (Hitt et al., 2009):

- the benefit of economies of scale, represented by the cost efficiency;
- diversification by increasing the product range and the market share;
- access to new markets (e.g. developing countries markets) reducing the costs involved by entering new markets;
- creation of synergy - the value of companies combined is greater than the sum of the companies acting independently;
- increased production capacity and decreased costs leading to higher productivity.

Among the disadvantages of M&As one can mention the following (Catwright and Schoenberg, 2006):

- uncertain value chain – arguments have been submitted stating that their activity creates little if any value and empirical evidence underline that acquisitions provide at most a mixed performance to the stakeholders involved. Target company’s shareholders generally enjoy positive short-term returns, while investors in a bidding company usually experience short price underperformance in the months following the acquisition;
- the post-merger integration may bring clashes of culture, reducing the effectiveness of the integration;
- there may be a conflict of objectives between different businesses creating difficulties in the decision making process and causing disruption in the running of the business;
- “paying too high a premium” (Hitt et al., 2009) on the premises of a potential synergy that can be created in the merger of two companies or generated by the multiple bidders for a particular target.

**Figure 5. Number of Greenfield FDI projects, by destination, 2003-2011**



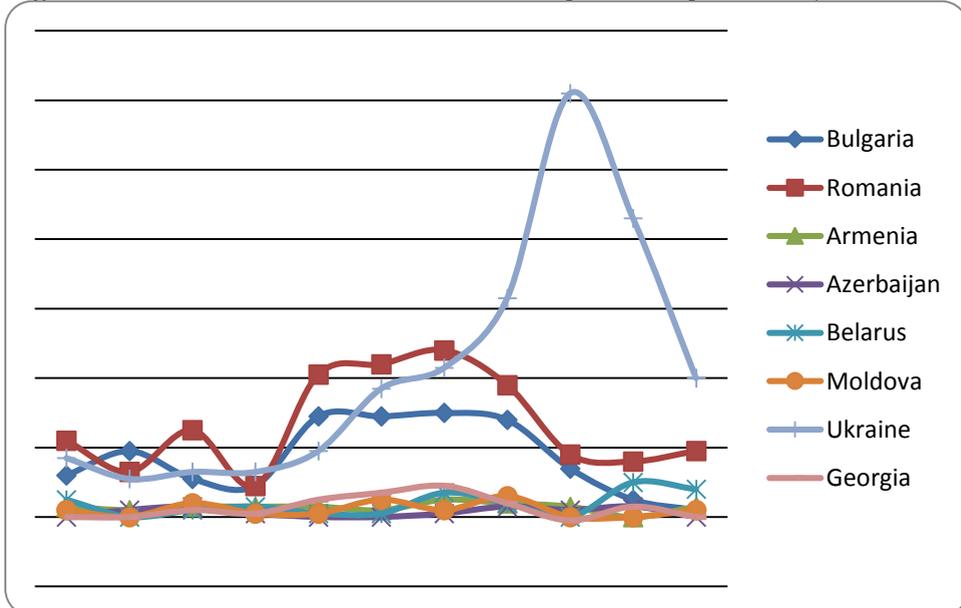
Source: UNCTAD, based on information from the Financial Times Ltd, fDi Markets ([www.fDimarkets.com](http://www.fDimarkets.com))

The highest number of Greenfield investment were realized in Ukraine during 2003-2011 (Greenfield investments started to be recorded by UNCTAD starting 2003), close to the number registered by Bulgaria and less than half of the number of the Greenfield projects in Romania and about one third when

comparing the values of the projects. The highest number of Greenfield investments in Ukraine was registered in 2006 and 2008 (133 and 135, respectively) and the highest value for this type of investments was recorded in 2008 reaching 7.9 billion USD. All the other five countries of the Eastern Partnership have a low number of Greenfield investments. In 2011 the situation was as follows: 12 for Moldova, around 20 for Armenia and Azerbaijan, around 30 for Georgia and Belarus and 69 in Ukraine. The highest values for the Greenfield investments were recorded in 2007 by Armenia, in 2008 by Azerbaijan, Belarus and Ukraine and 2009 by Georgia and Moldova. Moldova registered the lowest number and values of the Greenfield investments for the whole period under analysis.

During the analyzed period Ukraine registered the highest number of Mergers&Acquisitions with a peak in 2009 (122), declining in the following two years and reaching only 40 M&As, still higher than the number of sellers in all the other countries and also in comparison with the two new member states of the EU since 2008, when Romania and Bulgaria knew a decrease in the number of M&As (only 2 in Bulgaria and 19 in Romania in 2011).

**Figure 6. Number of cross-border M&As by economy of seller, 2001-2011**



Source: UNCTAD cross-border M&A database ([www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics))

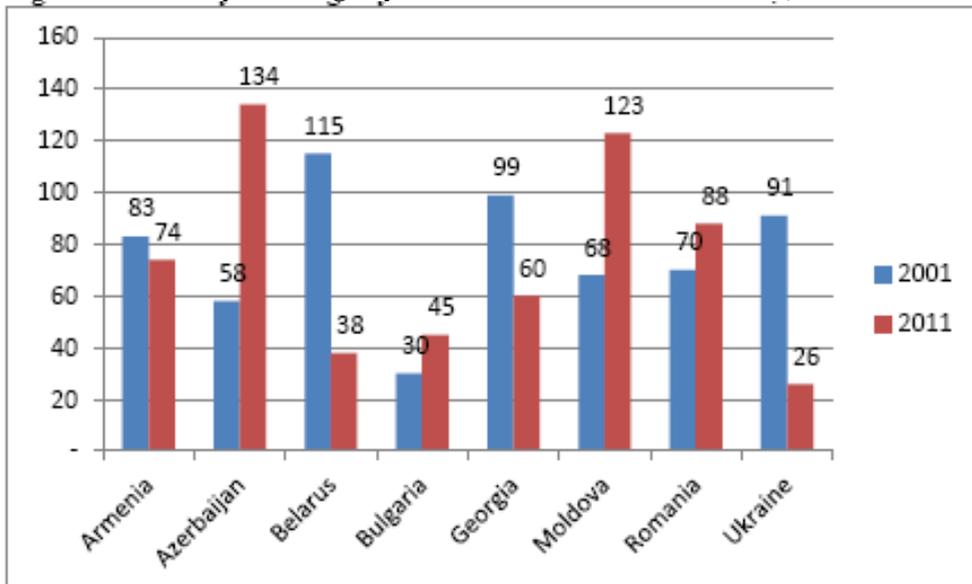
As concerns the value of the M&As, one can notice it is smaller than the one for Greenfield investments. The highest values were registered in Ukraine in 2005 (6.4 billion USD) and 2008 (5.9 billion USD). The rest of the countries in the

region registered under 10 M&As during the whole decade and the values of these transactions were small, with two exceptions: the value of the 3 M&As in 2003 in Azerbaijan were 1.4 billion USD and for Belarus in 2007 there was a value of 2.5 billion USD for 7 M&As.

### 3. ATTRACTIVENESS FOR THE FDI IN THE EASTERN PARTNERSHIP COUNTRIES

There are two indices calculated by UNCTAD relevant to the capacity of the countries to attract foreign investments and for the policy effectiveness in attracting FDI: inward FDI attraction and potential indices. According to the World Investment Reports, published by UNCTAD, the inward FDI Attraction index represents “the average of a country’s rankings in FDI inflows and in FDI inflows as a share of GDP”, ranking economies” by the FDI they receive in absolute terms and relative to their economic size”. In other words, this index measures the success that a country has in attracting FDI over a three year period.

**Figure 7. Country rankings by Inward FDI Attraction Index, 2001 and 2011**



Source: UNCTAD ([www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics))

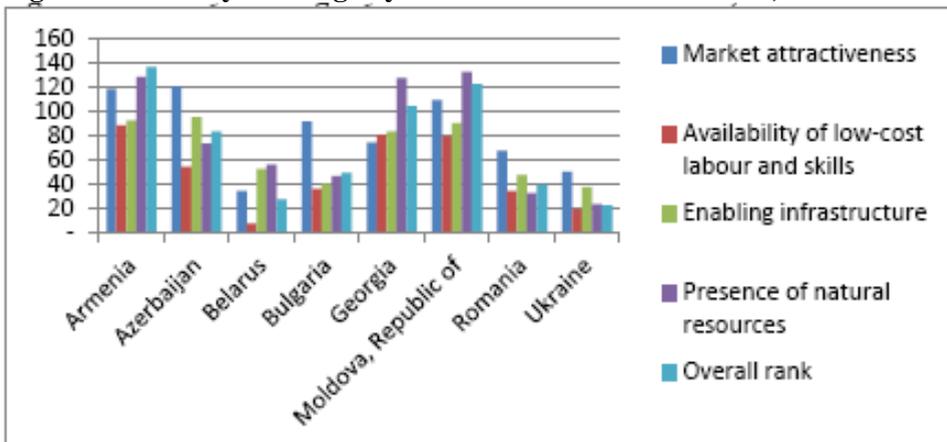
Note: The Inward FDI Attraction Index ranking is based on the average of a country’s percentile rankings in FDI inflows and in FDI inflows as a share of GDP

On the first position regarding the country’s attractiveness towards FDI in 2011 was Ukraine (26<sup>th</sup> place) with little variations since 2005, but knowing a

positive evolution in comparison with the situation in 2001 when it only reached the 91<sup>st</sup> place. On the following position among the countries in the Eastern Partnership is Belarus, which registered ranks over 100 until 2009 and making a significant jump in the last year, from the 86<sup>th</sup> place in 2010 to the 38<sup>th</sup> place in 2011. Azerbaijan also knew an interesting evolution, having good places until 2006 (24<sup>th</sup>) and reaching the bottom of the list in 2007 (182<sup>nd</sup>) the situation being improved a little in the last years and reaching in 2011 the 134<sup>th</sup> place. Republic of Moldova knew also a fluctuant evolution in the hierarchy the highest position being 58<sup>th</sup> place registered in 2002 and 2008 and the lowest in 2011 (123<sup>rd</sup> place). If one looks at the new member states of the EU could see that Bulgaria had a very high ranking during 2005-2009 (the 4<sup>th</sup> place) reaching the 45<sup>th</sup> place in 2011 and Romania decreased its ranking from the 6<sup>th</sup> place in 2006 to the 88<sup>th</sup> place in 2011. Still, there were two countries of the Eastern Partnership that had better position in 2011 than the two EU countries: Ukraine and Belarus and another two that over passed only Romania: Georgia and Armenia.

According to the same publication mentioned above, the inward FDI potential index ranks countries according to their attractiveness for the FDI on four key economic determinants: market attractiveness, availability of low-cost labour and skills, the presence of FDI-enabling infrastructure and the presence of natural resources. Analysing the available data one can observe that taking into consideration the overall rank on the first place among the analyzed countries was, in 2011, Ukraine (the 22<sup>nd</sup> place in the total hierarchy) followed by Belarus (the 27<sup>th</sup> place), better positions that the ones of the two EU new member states (Romania – the 49<sup>th</sup> place and Bulgaria – the 39<sup>th</sup> place). The lowest positions in the top were hold by Armenia (the 136<sup>th</sup> place), Moldova (the 122<sup>nd</sup> place) and Georgia (the 104<sup>th</sup> place).

**Figure 8. Country rankings by Inward FDI Potential Index, 2011**



Source: UNCTAD ([www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics))

*Note:* The Inward FDI Potential Index ranking is based on the simple average of a country's percentile rank in each of the economic determinants areas. A country's ranking within each group of determinants is based on the simple average of the country's percentile rank of each variable included in the group.

The main determinant of the inward potential index for all countries in the Eastern Partnership and the two EU states was the availability of low-cost labour and skills and the second one was different for the analyzed countries: market attractiveness for Georgia and Belarus, enabling infrastructure for Armenia and Bulgaria and presence of natural resources for the rest of the countries in the region (Azerbaijan and Ukraine) and Romania.

Comparing the two indices one could notice three possible evolutions of the analyzed economies (adaptation after FDI Attraction Index vs. FDI Potential Index Matrix, 2011, World Investment Report 2012, p. 32):

- Economies that have attracted significantly more or more FDI than could be expected on the basis of their economic determinants alone: Armenia, Georgia and Bulgaria (high attractiveness and lower potential);
- Economies that have attracted as much FDI as expected: Belarus, Ukraine (high attractiveness and high potential) and the Republic of Moldova (low attractiveness and low potential);
- Economies that have attracted less FDI than could be expected on the basis of their economic determinants alone: Romania and Azerbaijan (high potential and lower attractiveness).

#### **4. ATTRACTIVENESS AND FDI REGULATION**

Foreign investors take into consideration the advantages provided by one country, when considering a location for developing business. That is why the World Bank Group published in 2010 a report called Investing Across Borders which, on the basis of four topics (investing across sectors, starting a foreign business, accessing industrial land and arbitrating commercial disputes), presents indicators that measure how countries around the world facilitate market access and operations of foreign companies. The authors consider important to present some of the report's conclusions regarding mainly the openness of the sectors and the ease in creating a foreign subsidiary in the analyzed countries, but also some information regarding the access to real estate. This information is useful for various actors such as: potential investors, government and also academics and researchers.

As mentioned before, the authors took into consideration two of the four topics presented in the Investing Across Borders report (World Bank Group, 2010, p. 3):

- Investing across sectors indicators present the restrictions on foreign equity ownership in 33 sectors aggregated into 11 sector groups: Mining, oil and gas, Agriculture and forestry, Light manufacturing, Telecommunications, Electricity, Banking, Insurance, Transportation, Media, Sector group 1 (construction, tourism, retail) and Sector group 2 (health care, waste management);
- Starting a foreign business indicators present the time, procedures and regulations involved in establishing a local subsidiary of a foreign company in the form of a limited liability company.

Taking into consideration the indicators from the first topic, the report mentions that the countries in Eastern Europe and Central Asia are the most open to foreign equity ownership. The situation for the countries of interest in our analysis is the following

- Georgia has no restrictions on foreign ownership of companies in any of the sectors analyzed in the report;
- all the countries in the Eastern partnership and the two new member states allows full foreign ownership of companies in banking, construction, tourism, retail, health care and waste management;
- Media and Transportation are the most restricted sectors in the area: there are five countries that restricted ownership in Transportation (Armenia, Belarus, Bulgaria, Romania and Ukraine) the most restrictive being the first one, and four countries restricted access to Media (Azerbaijan, Ukraine, Belarus and Republic of Moldova) the most restrictive being the first two;
- Two countries have high restrictions in Mining, oil and gas sector: Azerbaijan and Armenia and Armenia also has restrictions on Agriculture and forestry;
- Belarus is the country of the Eastern partnership with the highest restrictions for foreign investors in five of the eleven sectors (Media, Insurance, Electricity, Telecommunications and Transportation).

As concerns the indicators from the second topics, the main conclusions that can be drawn from the report are presented in the following part:

- the time for establishing a foreign limited liability company varies among the 8 countries from 4 days in Georgia and 7 days in Belarus to 28 days in Ukraine. Georgia and Belarus are among the 10 fastest start-up processes in the world;
- taking into consideration the number of procedures, these vary from 4 in Georgia and 5 in Bulgaria to 9 in Moldova and 11 in Ukraine;
- Romania and Bulgaria are considered countries in which it is easy to establish a company and they offer the possibility of online registration. None of the countries require an investment approval, but they could ask for investment notifications or declarations.

The conclusions for the third topic show that foreign companies usually buy rather than lease land in the region and private ownership of the land is allowed.

In some of the countries, the information about the land is accessible to the public (e.g. Armenia) and in other the public information on the land is limited, as is the case of Romania or Ukraine.

## CONCLUSIONS

Foreign direct investments represent for less developed countries the most important way of supplementing the necessary resources for undertaking structural reforms and financing major projects in their economies. Attracting FDI remains a challenge for the countries of the Eastern Partnership in the years to come.

From the analysis carried out, one could easily observe that these countries were heavily affected by the economic crisis both in terms of the decline in their GDP and in the diminished flow of inward FDI.

For most of the analyzed countries the analysis of FDI inflows shows a similar evolution namely an increase in flows between 2001 and 2007-2008, followed by a sharp decrease in 2009 that continued in 2010 and a just a small revival in 2011. The values of the FDI inflows countries in the European Partnership managed to attract during the last decade were lower than the ones for the last two entering members of the EU, with the notable exception of Ukraine and Belarus in 2011. Regarding the outflows of FDI, two countries registered higher values during the last decade in the region, Azerbaijan and Ukraine, and the lowest outflows in the region came from Belarus and Georgia. As a result the inward stock both for the new member states of the EU and the countries of the European Partnership recorded increases during the whole period under analysis (for Romania and Bulgaria until 2009) except for Azerbaijan.

Referring to Greenfield investments, the highest number of projects was recorded in Ukraine during 2003-2011 and the lowest number and values for the whole analysis period was recorded in Moldavia. The situation remained much the same regarding the number of merger&acquisitions with Ukraine on the first position and Moldavia on the last.

Regarding the Inward FDI Attraction Index on the first position regarding the country's attractiveness towards FDI in 2011 was Ukraine (the 26<sup>th</sup> place) which registered a positive evolution compared to 2001 when it only reached the 91<sup>st</sup> place.

Regarding the inward FDI potential index, the analysis revealed that the main determinant for all countries in the Eastern Partnership and the two EU states was the availability of low-cost labour and skills whereas the second one was different for the analyzed countries: market attractiveness for Georgia and Belarus, enabling infrastructure for Armenia and Bulgaria and presence of

natural resources for the rest of the countries in the region (Azerbaijan and Ukraine) and Romania.

Last but not least one should take into account that foreign investors take into consideration the advantages provided by one country, when considering a location for developing business. From this perspective two sets of indicators were taken into account investing across sectors indicators and starting a foreign business indicator.

For the first set of the indicators the main conclusion is that Media and Transportation are the most restricted sectors in the area, followed by Mining, oil and gas sector.

As it concerns the second set of indicators the main conclusion is related to the fact that here we could find two of the Top ten countries that have the fastest procedures for start-ups in the world.

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# PECULIARITIES OF THE REPUBLIC OF MOLDOVA TRADE POLICY WITHIN THE NEGOTIATIONS OF THE ASSOCIATION AGREEMENT WITH THE EU

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**Abstract:** *Trade policy is one of the basic components of the state's economic policy and one of the main instruments to achieve economic growth. The Republic of Moldova trade policy is a liberalized one, thus determining the increase of competition on the domestic market that in turn would lead to the increase of competitiveness of the local producers on the foreign markets. The signing of Association Agreement and implicitly a DCFTA with the EU will contribute to a great extent to the stimulation of the foreign trade of the Republic of Moldova.*

**Keywords:** trade policy, trade relations, tariffs, non-tariff measures, Association Agreement, DCFTA

## INTRODUCTION

In the current article we will consider the role of foreign trade in the Republic of Moldova development. The main focus will be on the analysis of the peculiarities of Moldova trade policy in comparison with the Eastern and South-Eastern European states.

Also, we will consider the current Republic of Moldova specialization, as well as the potential for Moldova respecialization and diversification of its exports. Taking into account that Moldova is currently negotiating an Association Agreement with the EU, which provides for cooperation in a wide variety of spheres, including a free trade agreement, we will analyse Moldova trade flows with the European Union and the perspectives in the light of signing a DCFTA and an Association Agreement.

In the current article we will also consider the main challenges of the Republic of Moldova in the process of negotiation of DCFTA and Association Agreement, and will try to identify the possible feasible solutions to overcome these challenges.

A particular attention will be paid to the effects on the exports of the Republic of Moldova to the EU after signing the DCFTA, as well as the main

changes involved in Moldova trade policy after signing the DCFTA and Association Agreement with the EU.

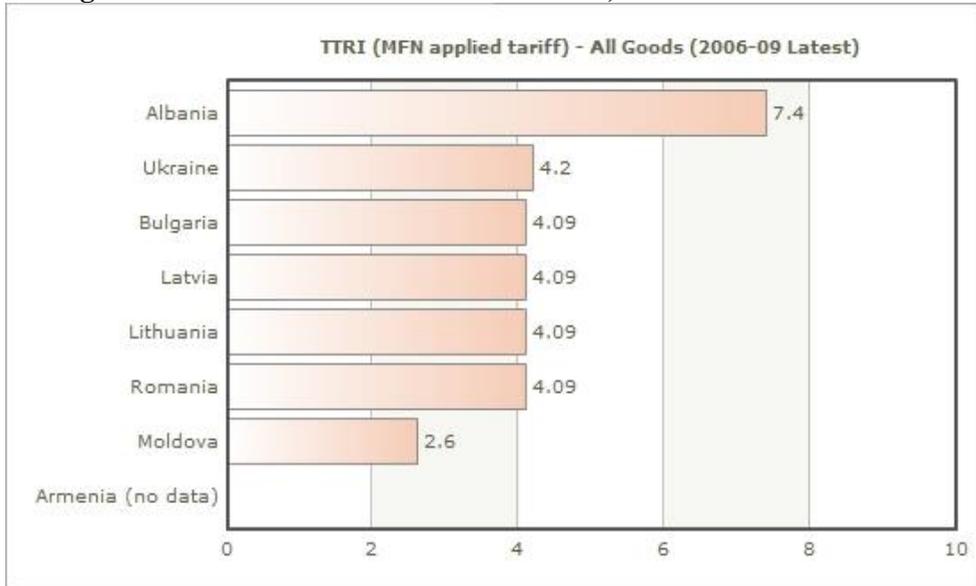
### **1. PECULIARITIES OF THE REPUBLIC OF MOLDOVA TRADE POLICY**

According to the World Bank, Moldova's per capita Gross National Income of \$1,980 in 2011 makes Moldova the poorest country in Europe. More than 20% of the country's population lives in poverty. Remittances amounted to more than 21% of the country's Gross Domestic Product in 2012. The global financial crisis has had a negative impact on Moldova. Moldova's GDP dropped by 7.3% in 2009, rebounded by 6.9% in 2010 and 6.5% in 2011, in 2012 it decreased by -0.8%. Growth decreased sharply, due to the slowdown in the Eurozone. In addition, the country's agriculture sector has been affected by drought [12].

Moldova's government key foreign policy goal is to accelerate the integration in the European Union (EU). Moldova currently has a Partnership and Cooperation Agreement (PCA) with the EU, which provides a framework for the EU's efforts to assist reforms in Moldova and for strengthening ties between the EU and Moldova.

Moldova is currently negotiating an Association Agreement with the EU, which provides for cooperation in a wide variety of spheres, including a free trade agreement. Moldova hopes to become a candidate for the EU membership. The EU Enlargement Commissioner Stefan Fuele has backed a potential membership candidacy for Moldova. However, the EU member states are unlikely to accept Moldova as a candidate in the foreseeable future. Moldova is part of the EU's Eastern Partnership initiative, part of the EU's European Neighbourhood program.

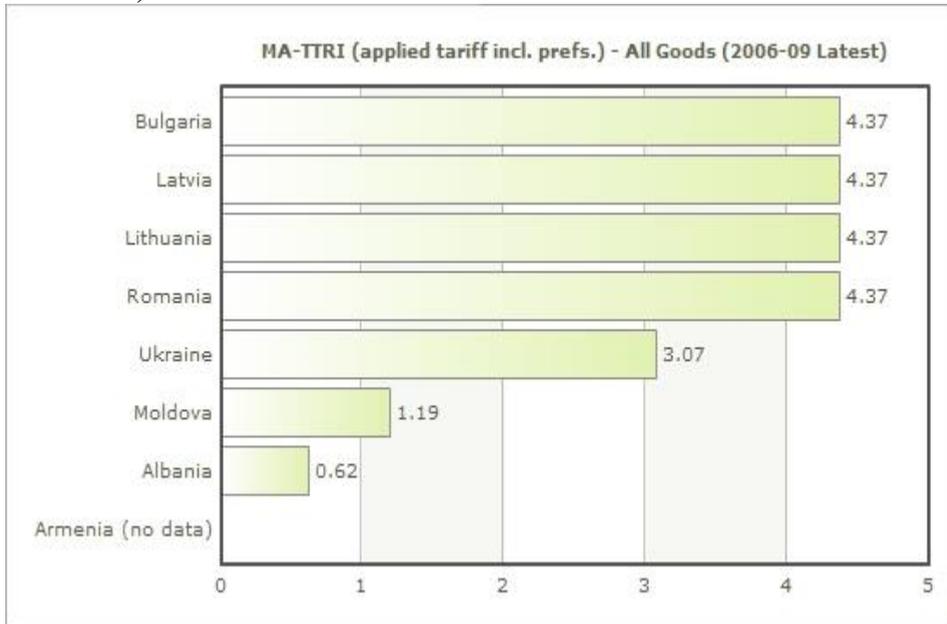
Considering Moldova's trade regime, we have to mention that it has a liberalised trade regime.

**Figure 1. Tariff Trade Restrictiveness Index, 2006-2009**

Source: [www.worldbank.org](http://www.worldbank.org)

According to the World Bank MFN Tariff Trade Restrictiveness Index (TTRI), Moldova is situated on the 11<sup>th</sup> place out of 125 states in the rating, so our country has one of the lowest customs tariffs in the world. Compared to the countries in the region Albania, Ukraine, Bulgaria, Latvia, Lithuania and Romania, Moldova has the lowest index of only 2,6%. According to another ranking, Moldova is situated on the first place out of 148 states in terms of index commitments in GATS. So Moldova is very open in terms of trade of goods and services.

**Figure 2. Tariff Trade Restrictiveness Index (applied tariffs, including preferential)**



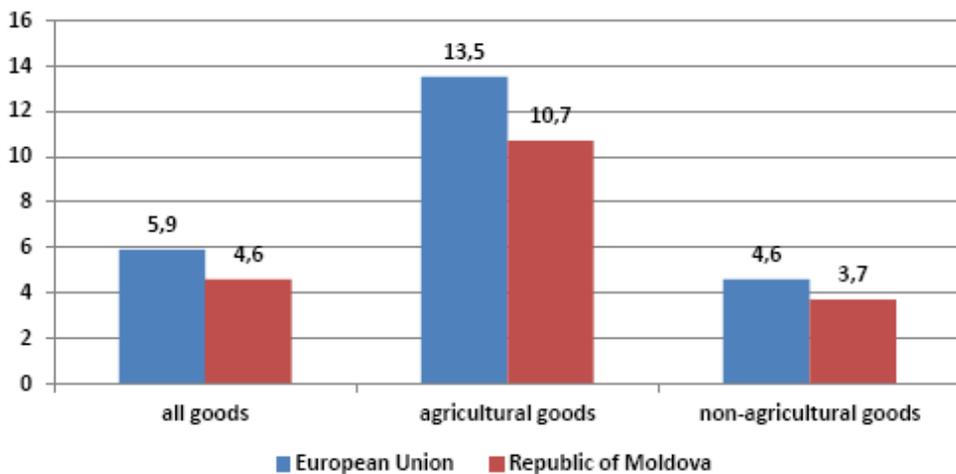
Source: [www.worldbank.org](http://www.worldbank.org)

As it is presented in the above graph, considering the TTRI, the applied tariff including the preferences, Moldova's index would be 1.19%, and from the analysed countries only Albania has a lower index of 0.62.

The average level of the customs tariff negotiated by Moldova in the framework of the accession to the WTO is 7%, 13.6% for agricultural products and 6% - for non-agricultural products. As it is shown in the figure below, de facto applied tariffs are on average by 2.3% lower than the negotiated limit. If we take into account the structure of imports, then the weighted average applied tariff is of only 2.7% (8.5% for the agricultural products and 2.1% for the non-agricultural ones).

Moldova's customs duties of 0% represent 18.4% of the customs tariff for agricultural products and 72.4% for non-agricultural products. From the customs duties applied in the framework of the Most Favoured Nation Clause, 90% of the agricultural products and 99.9% of other products have customs duties that don't exceed 15% [13].

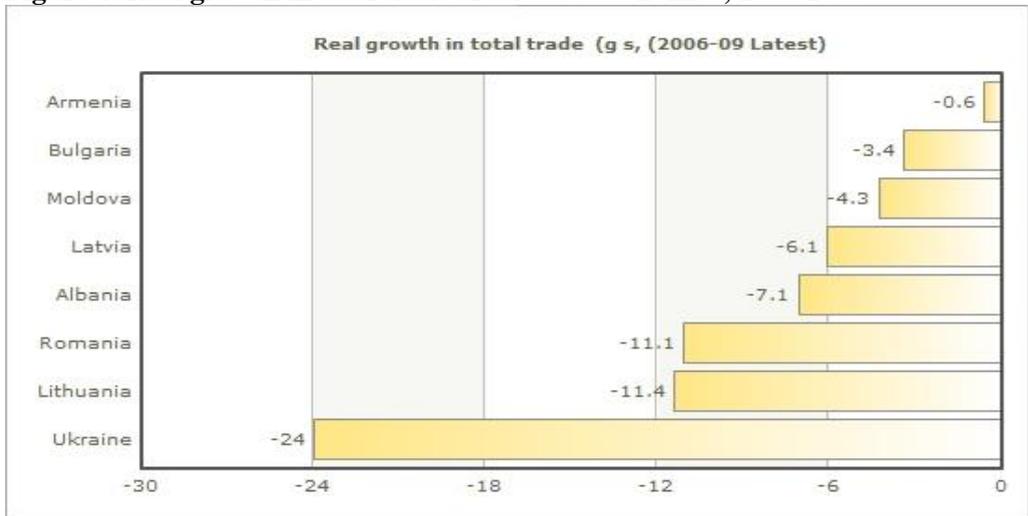
**Figure 3. Applied tariffs by European Union and Republic of Moldova**



Source: elaborated by the authors on the basis of WTO data

Although it is generally considered that the economy of the EU is more open to trade than that of Moldova, it is interesting to see that things are a little different. According to the WTO data regarding the tariff protection in the year 2009, for the three basic indexes Moldova is ranked better than EU27.

**Figure 4. Real growth in total trade of selected economies, 2006-2009**



Source: www.worldbank.org

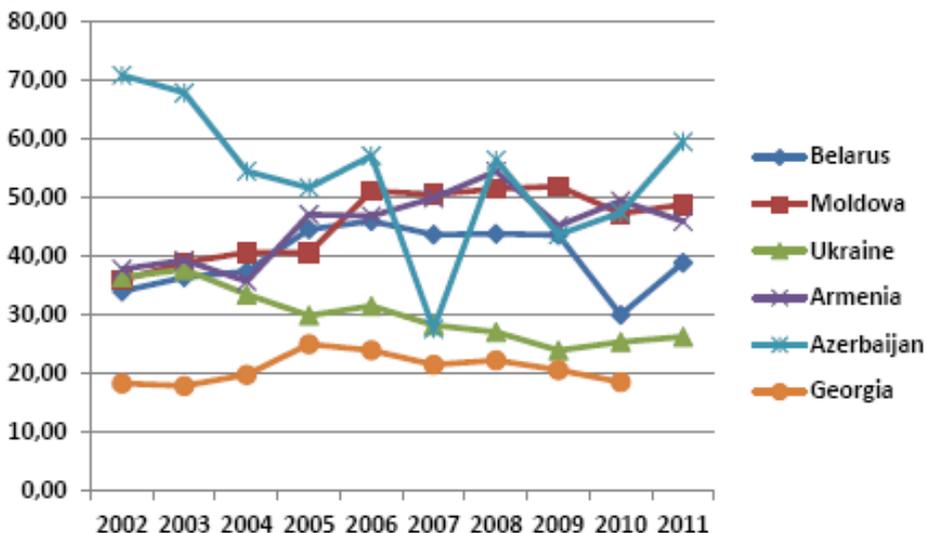
Analysing the real average growth rate of foreign trade in the period 2006-2009, for Armenia, Bulgaria, Romania, Ukraine and Moldova, we notice that the

Republic of Moldova is situated on the 3<sup>rd</sup> place after Armenia and Bulgaria, registering a decrease in the volume of trade in real terms by 4.3%, followed by Romania and Ukraine, that registered the highest decrease of the trade volume by -24%.

Foreign trade is one of the basic components of the economic growth of states, especially in the case of the Republic of Moldova, with a very limited internal market. That is why an appropriate trade policy is essential for stimulating economic growth and increasing the revenues from exports. Among the main barriers to increasing the volume of exports of Moldova are: regulation discrepancies, incompliance of the national infrastructure with ensuring the quality according to international standards or the lack of capacity to implement many international and European standards, especially the sanitary and phytosanitary ones.

Considering the evolution of trade relations of the Republic of Moldova in the last ten years, we observe from 2006, after the embargo of the Russian Federation imposed to Moldova's exports, a reorientation of Moldova towards the EU market, and thus the increase of the share of the EU up to over 50% in trade relations. This fact was also due to the increase of the nomenclature of goods exported on the European market with preferential customs duties, starting with January 1<sup>st</sup> 2006 through GSP+, and further on by the enforcement of Autonomous Trade Preferences by the EU starting with March 2008, that allow Moldovan exporters to export to the EU over 10 thousand tariff positions without paying customs duties, and for some goods there were established export quotas (Ciucu, 2011, p.22).

The trade flows with the EU increased four times in the last decade, except for the year of crises (2009). The share of the EU in Moldova's exports was 51-52% in the period 2006-2009, 47% in 2010 and 49% in 2011.

**Figure 5. Share of the ENP countries' exports to EU27, %**

Source: elaborated by the authors on the basis of Eurostat data.

Moldova has the second place of ENP countries – East, after Azerbaijan in terms of share of exports to the EU. Taking this into account, we can conclude that a more liberalised regime of exports to the EU will only lead to further increase of the share of exports to the EU all in all. Although we might expect that the growth rate of exports to the EU after signing the DCFTA, it will not be as high as (+21-26%), like it was after entering into force of the GSP+ and ATP, because the major part of goods with high export potential already benefit from a liberalised trade regime in the framework of GSP+ and ATP.

The European Union increased the quotas in the framework of ATP as follows: for wine by 15 mln. litters, for sugar from 30 thousand tonnes to 34 th., for wheat, corn and barley for the next three years it is foreseen an annual increase by 5 thousand tones. In 2015 these will be equal to 50 thousand tonnes for barley, 45 – for corn and 55 thousand tonnes for wheat.

In the first three months of 2013, the License Chamber issued authorizations for the export of 5.6 mln liters of wine to the EU – 22.4% of the total quota – ATP, the main export destinations being the Czech Republic, Poland, Romania and Slovakia. For sugar export there were issued authorisations to cover 24.7% of the total 34 thousand tones authorised, the main destinations being Romania and Poland. The lowest number of requests of authorizations were for wheat (4.4%), main destinations being Romania and Great Britain. There were no requests for authorizations for corn and barley [10].

Analysing the products with the highest share in Moldova's exports to the EU, these are: textiles and clothing, vegetable products, machines, equipment and

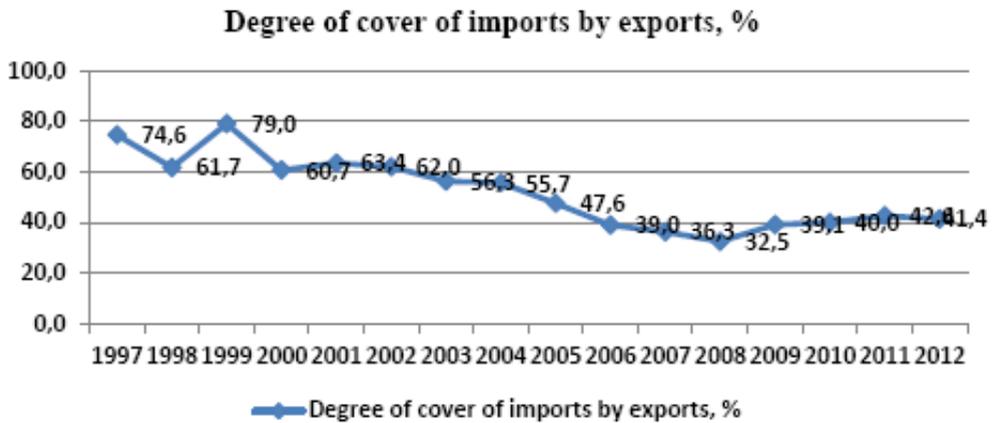
electronic equipment, agricultural products and beverages, tobacco, vegetable and animal fats and oils, furniture, medical-surgery furniture, lightning apparatus and similar articles, prefabricated constructions. These groups have a share of around 80% of the total Moldovan exports to the EU. Except for the group of vegetable products and food products, beverages and tobacco, the other groups of products will be more or less immune to trade liberalization in the framework of DCFTA, due to the current liberalised regime. On the other hand, the vegetable products, food products will gain from the abolishing of the export quotas and other trade barriers, especially those products that currently use the applied quotas at 100% (wine, corn, wheat, barley and eventually sugar) (Luecke, 2011, p.8).

The first 10 countries from the EU in Moldova's export side are: Romania – 33.8%, Italy – 20.2%, Great Britain – 11.3%, Germany – 10.4%, Poland – 6.4%, France – 3.2%, Bulgaria – 2.6%, Greece – 2.4%, Lithuania – 1.6%, Austria – 1.5%. It is expected that together with entering into force of the DCFTA, it will increase the share of “non-traditional” countries for the Moldovan exports, especially due to the increase of the FDIs that will appear together with the elimination of trade barriers, although in the short run the main export destinations will be the same.

The main imported products from the EU are: machines and equipment, electronic apparatus, mineral products, chemical products, textiles and clothing, vehicles, aircrafts and means of transport, plastic materials, rubber etc., food products, beverages, common metals. The elimination of the trade barriers in the framework of DCFTA will not radically influence the import of these groups of products, as the majority of them, anyway, are not produced in Moldova and are imported regardless of the tariff barriers.

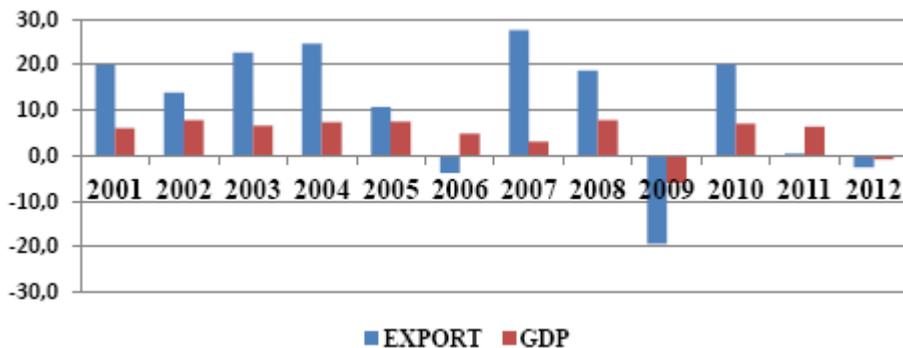
Moldova's main import partners from the EU are : Romania – 22.7%, Germany – 17.3%, Italy – 15.9%, Poland – 6.2%, Greece – 5.5%, France – 4.0%, Hungary – 3.8%, Austria – 3.5%, Great Britain – 3.1%, Bulgaria – 2.9% [11].

If we look at the degree of cover of imports by exports, we see a decreasing trend, so the revenues obtained from exports have a very low level, insufficient to cover at least half of the import expenses.

**Figure 6. Evolution of the degree of cover of imports by exports in Moldova, %**

Source: elaborated by the authors on the basis of data of WTO.

The highest level of the cover degree of Moldova was registered in the years 1997-1999, of 74.6% and 79% respectively, after that followed a continuous decline until 2008, registering the lowest level of 32.5%, after which as a result of higher rates of decrease of imports in comparison with exports due to the global financial crises, it registered a slight increase until the level of 40% in 2010, 42.6% in 2011 and again a decrease until 41.4% in 2012 due to a decrease of exports and increase of imports in comparison with the year 2011.

**Figure 7. Growth rates of the GDP and Exports of Moldova, 2001-2012, %**

Source: elaborated by the authors on the basis of the data of NBS

Considering the growth rates of the GDP and exports of Moldova in the period 2010-2012, we observe a correlation in their evolution. In the year 2006 there was an increase of the GDP, while the exports decreased, this year being the one when

there was the highest discrepancy between the evolution of the GDP and exports, due to the embargo of the Russian Federation on Moldovan exports. In the following period there was a positive correlation between the GDP and exports. In 2009, due to crisis, exports decreased by almost 20% and the GDP by 6%, followed by a recovery in 2010, and a stagnation in 2011 in terms of exports and increase of the GDP by 6%, while in 2012 both exports and GDP registered a decline.

Re-exports represent about 40% of the country's total exports. About 5/6 of the total re-exports are consumption goods. The share of re-exports of agricultural products is minimal, industrial goods account for 95% of re-exports (clothing and footwear - 45-50%, as well as cables, wires and items of furniture). Much of re-exports go to Romania, Italy and other EU countries, but also to Russia and Turkey.

Analyzing the structure of exports of the Republic of Moldova, we can see that they are mostly composed of products with a relatively low degree of technological sophistication (complexity). Estimates based on PRODY index shows that the share products with PRODY index > 20.000 (those characteristic for the developed countries' exports) in total exports were always less than 10%. However, this indicator has been increasing from 2001 to 2008, but decreased in 2009. There is a wide range of products that fall within this category of relatively sophisticated products (agricultural products, chemicals, metals articles, some equipment and instruments), which are exported in small quantities until now (Mogilevskii, 2011, p.14).

Non-tariff measures are not applied frequently in Moldova. The unique safeguard measure applied was the safeguard duty for sugar of 36-38%. The import of a reduced number of products: spirit and alcohol, beer, tobacco, fertilizers, seeds, perfumes and cosmetics, arms, electricity, diesel, petrol and LPG and export of ferrous and non-ferrous waste and armaments are subjected to licensing.

The export concentration index of RM (Herfindahl-Hirschman) on the main export markets is high, so the first three markets have a share of over 50%, and the Herfindahl-Hirschman index for export markets registers a value of 0.2622.

The products concentration index also has a high level, so the share of the first three exported goods is higher than 16%, and the value of index is 0.1538, although there was a positive trend in the last four years. The total number of exported goods is 766, in comparison with 1072 imported goods.

According to the Balassa and Lafay indexes, there were identified the main sectors in which currently Moldova is specialised, these being: Alcoholic beverages (Balassa index=20), carpets (18.8), fruits, nuts (18.6), vegetables (11.2), seed oils (11.1), sugar (10.4), cereals (8.5), clothing (8.1), vegetable and animal oils and fats (7.6) [8].

Among the main obstacles in the increase in the volume of Moldova's exports on international markets are: regulation discrepancies, incompliance of the national infrastructure of ensuring quality to international standards or the lack of

capacity of implementing many international and European standards, especially sanitary and phytosanitary ones.

## **2. MOLDOVA'S NEGOTIATIONS ON THE ASSOCIATION AGREEMENT AND DCFTA WITH THE EUROPEAN UNION**

In 2010, Moldova and the EU began talks on an Association Agreement to replace the current PCA. While the agreement would not recognize Moldova as a membership candidate, it would enhance the EU-Moldova cooperation in many areas, including the establishment of a free trade zone. Moldova and the EU hope to sign the completed agreement by the EU's Eastern Partnership summit in Vilnius, Lithuania in November 2013. Moldova is also seeking a visa-free travel agreement with the EU. Moldova had developed detailed plans on what it needs to do to qualify for such an agreement, but much work still needs to be done in implementation.

Major components of the Association Agreement are political agreement, free trade agreement and visa liberalization (mobility), together with a fourth aggregate area of cooperation in the fields of education, culture, science, regional cooperation, exchange of experience between civil society from Moldova and the EU.

From 2011 to 2013, Moldova is slated to receive 273.14 million Euro (\$372.9 million) as aid from the EU. The aid is targeted at bolstering Moldova's reform efforts, including fostering good government, the rule of law, and the protection of fundamental freedoms.

The DCFTA negotiations between Moldova and the European Union were launched in March 2012. Negotiating teams relatively quickly settled a number of difficult issues (trade in goods, customs and trade facilitation, public procurement and energy), which indicates that Moldova wishes to complete the negotiations and sign the Association Agreement in the autumn of 2013. Declarations coming from Brussels also suggest that this is a realistic time frame, but currently in the light of political instability, there appeared serious concerns regarding the signing of the Association Agreement in autumn. Although the final Association Agreement will require ratification by all the EU member states (which could take up to two years), an interim implementation clause is likely to be adopted for the DCFTA. The implementation of the DCFTA will bring about a deepening of economic integration of Moldova with the EU, and the adoption by Moldova of a part of the EU *acquis*, which is seen as a crucial instrument in the modernisation of the country (5, p.50).

The last round of negotiations took place during 11<sup>th</sup> to 14<sup>th</sup> March 2013 in Brussels. To meet the requirements of the European Commission, starting with 2010 the Government of the Republic of Moldova launched a major structural reform in 13 areas, designed to adjust the legislative and institutional base of Moldova to the EU standards and requirements. Unlike the current RM-EU ATP trade regime, which is a regime unilaterally granted by the EU for a limited period - DCFTA will be a

multilateral Agreement concluded for an unlimited period, providing much more benefits for exports than ATP, and long term predictability for business. According to the study conducted by the European Union, EU-Moldova Deep and Comprehensive Free Trade Agreement will boost by 16% Moldovan exports and the country's GDP will increase by 5.6%.

Currently, parties almost finished the juridical part of the Agreement and the technical details that will be finalised during the negotiation round from June 2013 that will take place in Chisinau are left for consultation. This is to be the last round of negotiation, during which it is foreseen that the text and appendixes of the DCFTA will be initialled.

The signing of the free trade agreement is important for Moldova from two dimensions:

1) political dimension - DCFTA Agreement will be regarded as an important indicator of the Chisinau government for stimulation of structural reforms, which in time can bring Moldova in the much desired dimension, that of negotiations about the EU enlargement. Once adopted the *acquis* recommended by the European Commission, the Republic of Moldova will have already implemented a good part of the *acquis*, the Europeanization process being ongoing and without a clear membership perspective.

2) economic dimension – The EU is already the main trading partner of the Republic of Moldova. The DCFTA Agreement will foster further integration of the country in the European Economic Area, with direct access to the Common Market, which will conduct to economic growth and will boost economic competitiveness. The main benefits for the Republic of Moldova may result in the following: access to an enormous market for the Moldovan products, attraction of new investments (by increasing the confidence of new investors); optimizing institutional and legislative framework, improving the business environment; increase of the real competitiveness of sectors (Popa, 2009, p.40).

Moldova's progress in its negotiations on an Association Agreement with the European Union, with a Deep and Comprehensive Free Trade Area (DCFTA) as its key element, has become a source of tension between Chisinau and the breakaway Transnistria. An almost certain refusal by Transnistria to join the DCFTA, will deprive the region of the benefits it currently enjoys under the EU Autonomous Trade Preferences (ATP) worsening its already precarious economic situation. It is to be expected that the issue will become an additional source of tension between the two sides of the Transnistrian conflict, and might also have a negative impact on the EU-Russia relationship.

The signing of the Association Agreement, which is scheduled for the autumn of 2013, will be an important step towards Moldova's integration in the EU. Both sides assign great importance to the speediest possible finalisation of the Agreement, and so far the negotiations have been described as progressing very smoothly. Currently, the Transnistrian companies are able to export goods to the EU

market under the Autonomous Trade Preferences granted to Moldova by Brussels in 2007. However, if Chisinau signs the DCFTA agreement, the ATP regime will be automatically discontinued. Its further application for Transnistria alone will not be possible for legal reasons. Consequently, once the DCFTA has been implemented, the EU customs tariffs on Transnistrian exports will rise by 10-17%, which will have a serious impact on the region's economy (Woehrel, 2013).

According to the researchers of the Center for Social and Economic Research of Poland, the long-term expected earnings from deep integration with the EU and institutional harmonization can reach up to 8-10% of GDP: Armenia - 1.14% per year, Azerbaijan - 2.34%, Belarus - 4.71% Georgia - 1.19%, Moldova - 1.5%, Ukraine - 1.62%.

The costs of creating of the DCFTA are significant. Armenia harmonization costs will rise to \$ 2.3 billion, in Azerbaijan – to \$ 6.4 billion, in Belarus – to \$ 11.8 billion, in Georgia – to \$ 2.7 billion, in Republic of Moldova – to \$ 1.1 billion, and Ukraine – to \$ 32.3 billion. These costs represent approximately 30-36% of the GDP of these countries in 2006, a very important percentage that, according to some experts, could be hardly supported in the near future. Among the major challenges of Moldova's trade policy there are: export concentration, weak competitiveness, low productive capacity and high trade deficit.

Three commodity groups make up the majority of exports from Moldova: agricultural products; re-exports of consumer goods, including garments and footwear, cables, wire and some furniture; and, unlike other countries in the region, services (transport, tourism and communications). The range of other internationally competitive products is small, and their value-added is low, due to the weak productive capacity of enterprises. Existing trade support institutions (TSIs) in the country have limited capacities to provide the services necessary for enterprises to increase their international competitiveness. All this results in a wide trade deficit, with exports being 2.5 times smaller than imports.

The geographical destinations of Moldova's exports are concentrated on a small number of trading partners. The lack of economic diversification makes the country vulnerable to sudden changes in international commodity prices and partners' politico-economic situation, like in the case of the 2006, 2009-2010 Russian embargo on Moldovan wine and agriculture exports.

The Moldovan financial markets are underdeveloped and access to trade finance is costly and/or limited. High interest rates and collateral requirements, credit tightening during the financial crisis and inadequate guarantee schemes hinder access to start-up and long-term financing, in particular for the SMEs. Access to international capital markets is also limited because of the small size of most firms by international standards, as well as the unfavourable risk profile of the country. Inflows of the FDI have decreased from 12% of GDP in 2008 to 3% in 2010. FDI goes mainly to the services sectors (Ciucu, 2011, p.105).

Slow and cumbersome customs clearance procedures and border controls are also present in Moldova and adversely affect trade costs and the reliability of the cross-border movement of goods. Ineffective implementation of laws and complex and opaque technical regulations also negatively influence business activities in the country. Regardless of some gradual improvement of the business climate in recent years, Moldova was ranked 142nd, down with 1 position in comparison with the year 2012 on the World Bank's "trading across borders" indicator in 2013. The overall rank of Moldova in Doing Business 2013 was 83, up with 3 positions in comparison with the year 2012 (86) [WB, 2013].

**Table 1. Moldova's "Trading across borders" indicator, Doing business 2013**

<b>Indicator</b>	<b>Moldova</b>	<b>Eastern Europe &amp; Central Asia</b>	<b>OECD</b>
<b>Documents to export (number)</b>	7	7	4
<b>Time to export (days)</b>	32	26	10
<b>Cost to export (US\$ per container)</b>	1,545	2,134	1,028
<b>Documents to import (number)</b>	7	8	5
<b>Time to import (days)</b>	35	29	10
<b>Cost to import (US\$ per container)</b>	1,870	2,349	1,080

*Source:* Doing Business 2013. Economy profile: Moldova, WB, IFC, 2013

As a landlocked country, Moldova has limited access to world markets, which is further impeded by its underdeveloped infrastructure. Power, transport and telecommunications infrastructure is lacking or in poor condition, which increases the cost of trade operations and constrains the international competitiveness of Moldovan businesses, despite efforts to harmonize regulations and standards with those of the EU.

Looking at the effects of the DCFTA, we have to mention that the most sensitive products at imports liberalization from the EU will be those from the group "food products, beverages, tobacco", that have competitive advantages in terms of price and quality in comparison with the Moldovan products. In the short run, the import of these products will increase after the coming into force of the DCFTA, but the impact will not be a devastating one, the imported food products and beverages already having an increasing high share on the local market (in the last years the import of these increased with 75%, while export reduced with 20%). In the long run, this would bring more benefits as a result of increased competition and thus increasing the competitiveness of local products and inflow of FDIs.

After signing the DCFTA it is expected to increase the imports from closer states: Romania, Bulgaria, Hungary and Poland, due to the increase of imports of food products and beverages that would replace the imports from some CIS countries (long distance), including Russia (Luecke, 2011, p.11).

Moldova should capitalise the advantages that derive from the increase of prices for agricultural products on the international market and the future DCFTA. Moldovan authorities should enforce export stimulation measures to increase the competitiveness of these products, otherwise Moldova risks not only to further decrease exports of these products on the EU market, but also to lose the internal market of these products.

Also, there is an urgent need to adopt and implement the sanitary and phytosanitary measures of the EU for the animal production, in order to export these products on the EU market.

Moldova should negotiate with the EU some exceptions from the DCFTA regime and some protection measures in the framework of the WTO commitments for the most sensitive food products that would reduce the negative effects on the internal market.

A major constraint for the Moldovan exports is extremely complex and difficult customs procedures. So it is required to eliminate all the deficient and corrupt practices of implementing the customs laws and regulations in force, as well as to simplify the the complexity of export procedures.

The main measures designated to increase the level of competitiveness of the Moldovan exports should focus on: - the improvement of the business climate, by simplifying and increasing the transparency of technical regulations of customs procedures, as well as fiscal regime; - attracting investments in the infrastructure needed to increase the exports; - evaluating and if required re-distribution of the assistance granted to enterprises, including agricultural subsidies; - maintaining a competitive environment in the export oriented sectors and supporting the SME and supporting the exports of products with high added value.

## CONCLUSIONS

The share of exports of Moldova in the GDP in 2012 was 31%, and in order to increase the contribution of exports to economic growth, the emphasis should be laid on the specialization in exports of products with high added value. A special attention should be paid to the export of services with high added value, especially the ones from the Informational Technologies sphere as well as business and consulting services etc.

Moldova's commitments in the WTO made its customs tariffs to be at a reduced level, so the impact of signing the DCFTA with the EU on the state budget would be relatively reduced.

Currently, for the products eligible for preferential export to the EU, it is registered the complete the use of quotas offered in the framework of the ATP.

The European Union would not be affected by the signing of the DCFTA with Moldova, due to very low share of Moldova's exports.

Summarising the main advantages of Moldova from signing the DCFTA with the EU:

- Access to an important market (the EU Common market),
- Attracting new foreign investments (increase of investors' confidence),
- Optimization of the institutional and legislative framework,
- Improving the business climate,
- Real increase of the competitiveness of economic sectors of Moldova.

The conclusion is that a more liberalised export regime in the framework of the DCFTA will only lead to further increase in the Moldovan exports to the EU. Although we have to expect that the growth rates of Moldova's exports to the EU after signing the DCFTA will be lower in comparison with the ones registered after GSP+ and ATP entered into force.

The full elimination of tariff quotas and remaining tariffs by the EU would raise Moldova's exports of agricultural and food products to the EU by between one third and one half for the various product groups, with only minor reduction in exports to the non-EU countries.

While this increase in exports would provide important benefits for Moldova, it would be so small relative to the size of the EU market that it would hardly be noticed by the competing EU producers.

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# THE COOPERATION BETWEEN THE EU AND UKRAINE IN THE PERIOD OF INTENSIFYING INTEGRATION PROCESSES IN THE POST-SOVIET AREA

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**Abstract:** *Mostly preferable geopolitical position of Ukraine at the same time causes a permanent choice problem for Ukrainian government – East or West – that at the current period means a choice between two integration projects. This is a choice not only of the economic meaning, but both political and ideological ones for the Ukrainian people. If one of these projects is the long-established – the European Union, the second one is just foreseen to be created as the final level of integration processes at the Post-Soviet area – the Eurasian Union. Summit in Brussels held on the 25th of February 2013 was supposed to be one more new step to Ukrainian cooperation with the EU and distinguishing the western integration vector of Ukraine as the key tendency of its foreign policy. Will the planned signing of the Association Agreement in November 2013 become real while the integration project within post-soviet area is intensifying extremely? The author tries to find out the possible ways of solving the mentioned choice-problem of Ukraine at the current period.*

**Keywords:** European Union, Eurasian Union, Ukraine, cooperation, integration processes, association agreement, Customs Union.

## INTRODUCTION

Looking back to the history due to the geopolitical position Ukraine has always experienced the influence of two neighbouring forces on its political, economic, social and cultural space. As for the peculiarities of historical backstage, Ukrainian leading political establishment has always been faced the choice – East or West. After proclaiming the independence in 1991 Ukrainian official political line was turned to the West adherent to European and Euro-Atlantic integration distinguished it among the key national interests. Admittedly, the Atlantic component of the integration was excluded from the priorities of the foreign policy of Ukraine, but the European one is still being kept and assigned in the main Ukrainian national law document on the bases of domestic and foreign policy of Ukraine (The Law of Ukraine „On the Basis of Domestic and Foreign Policy”, 01.07.2010 № 2411-VI). Meanwhile at the current moment the alternative between two vectors is still arising – the European Union and the Eurasian Union. As the European Union is the initiative with long democratic traditions and well-defined

values, the Eurasian Union is a „soon to be created” project that has already been launched with the first step of integration within the post-soviet area – the Customs Union (see table 1).

Having been initiated by Kazakhstan and officially formed in January 1, 2010, the Customs Union now includes Russian Federation, Belarus and Kazakhstan, widely being inspired to enlargement by official Moscow. The warm welcome to the Customs Union is addressing to Ukraine with the perspective to become an equal partner in the Eurasian Union after 2015. At the same time even if the EU membership isn't proposed to Kyiv where politicians do realize that Ukraine isn't ready to meet all the requirements to join the EU, there is some expectation for further and deeper cooperation between Ukraine and the EU in the nearest future. Namely, we consider the Association Agreement (AA) as a significant step forward to such cooperation both in the political and economic field. But we should also mention the following: Ukraine has been willing to gain a chance for the AA for a long period, but the agreement is offered and probably to be signed at the Eastern Partnership Summit in Vilnius in November 2013 when the country is still experiencing the very those problems which prohibited the warming of the relations with the EU in the previous years (Kuzmin, Maksymenko, 2012, pp. 63-81). Can this offer be evaluated as the geopolitical struggle for Ukraine to prevent its integration with another union or it's the time for an overture to the country in the centre of Europe with about 45 million of population and long centuries of history?

**Table 1. Steps for the Eurasian Union Creation.**

Date	Step
October 6, 2007	Signing of the treaty setting up the Customs Union between Russian Federation, Belarus and Kazakhstan
January 1, 2010	Launching of the common customs tariff. Beginning of the work of the Customs Union Commission
July 1, 2010 (July 6 for Belarus)	Entering the force of the Customs Union Custom Code
July 1, 2011	Eliminating of the internal physical border controls
January 1, 2012	Inaugurating of the Single Economic Space.
July 1, 2012	Eurasian Economic Commission replacing the Customs Union Commission becomes effective.
January 1, 2015	Planned start of the Eurasian Economic Union

## **1. UKRAINE – THE EURASIAN UNION (A place of Ukraine within initiatives of Moscow concerning the Post-Soviet Area, the Customs Union and the „coming soon” Eurasian Union)**

The main point of the Eurasian Union for understanding as most of scholars state is the fact that this project shouldn't be evaluated as an attempt to come back to the Soviet Union. As it's really aimed to reintegration of the post-soviet countries, still it differs deeply from other integration initiatives that were launched within the post-soviet area from the beginning of 90-ies. It may be proved, for instance, with the famous Vladimir Putin's statement concerning another integration initiative: „The Commonwealth of the Independent States never had any super-tasks of an economic nature, any integration tasks in the sphere of economics” (Dragneva, Wolczuk, 2012, p. 3). Meanwhile the plot of the Eurasian Union (declared in 1995 where the origins of the Eurasian Union go back to) is surely the economic issues first of all that is widely used to persuade Ukrainian government in the perspectives of this integration necessity and advantages for the Ukrainian country.

Viktor Yanukovich, the President of Ukraine, first stated about Ukraine's interest in joining the Customs Union in November 2010 at the joint press-conference with Dmitry Medvedev – the President of Russian Federation at that time (Ukraine may join Customs Union – Yanukovich, 26.11.2010). Later in March 2012 such assumption was repeated again. Yet Viktor Yanukovich noticed that it might be done only in the future as presently it could be treated as the contradiction to the Constitution of Ukraine (Yanukovich: Ukraine's Constitution does not allow entry into Customs Union, 21.03.2012). Meanwhile, official Moscow is demonstrated its thorough interest in Ukraine in the proposed integration project.

The main accent is made into the economic component of the integration. Due to the leader of the Communist party of Russian Federation Hennadiy Ziuganov, the integration of the economic potential of both states [Ukraine and Russia. – Author] can lead the countries out the 20-years economic stagnation (Mykhaylenko, 2011). The ambassador of Russian Federation in Ukraine Mihail Zurabov said that Russia doesn't make any pressure as Ukraine is absolutely free while choosing its partners – both political and economic, concerning its further development including its joining the integration structures (Ivzhenko, 2012a). But to some extent it's obviously that Russian policy will be defined considering the direction chosen by official Kyiv. Even if to consider that currently the Customs Union is focusing on the economic issues, the Eurasian Union can't avoid the political element. The President of Russian Federation Vladimir Putin agrees that the complicated choice facing Ukraine is, first of all, the political one (Putin admitted that the Customs Union is a politics, 04.03.2013). Moreover, it's expressed not only by the representatives of the political establishment of Russian Federation, but also by leading public figures, activists of NGOs dealing with public diplomacy, etc. The economic and financial forces are also significantly aware of Ukraine's vector of

integration. Russia is trying to use fuel prices as a kind of lure to involve Ukraine into the customs union with Belarus and Kazakhstan notwithstanding Ukraine's will to deepen economic and political ties with the EU. Ukraine depends for more than 50 percent of its natural-gas supply on Russia (in 2009 gas supply was shut off for two weeks to Ukrainians – so-called „gas-war”).

There are no doubts that Russia has always been a strategic partner of Ukraine and still it is. But so often remembered „empire heritage” of Russia can't leave the space to the new wave of relations between official Kyiv and Moscow. If to consider the Eurasian Union to be an attempt to unite the post-soviet countries with the former heritage, even if only the economic one, it's obviously won't meet thorough support in many regions of Ukraine as being treated a step back (here, worth to mention, e.g., the official position of the leader of Ukrainian opposition Arseniy Yatseniuk). Joining the Customs Union will mean a loss of the significant part of Ukraine's economic sovereignty (if only economic), that is perceived as the main considerable threat by the vast majority of Ukrainians. Taking this into account, it's necessary to search new mechanisms for mutual cooperation. „We do think we can reach an agreement that will allow us to work with the customs union to the extent which Ukrainian laws and our obligations to world organizations such as the World Trade Organization allow”, – the Ukrainian President said (President tells Bloomberg about Ukraine's European integration, relations with Russia, 26.05.2011). The President of Ukraine explains the necessity of „partly integration” with the Customs Union and joining to its some clauses with the economic needs „not to loose a lot that is unacceptable today for the economy of Ukraine” (Ivzhenko, 2012b).

In January 2013 the Presidents' official visit to Moscow, where the integration perspectives were to be discussed, was unexpectedly cancelled. Different numerous opinions were expressed concerning the reasons of two presidents' meeting cancel. Viktor Yanukovich stated that Ukraine was trying to meet the legal requirements of the Customs Union without harming other international accords and that „experts from both sides [Ukraine and Russia] are currently working on this issue” (Ukraine leader cautious on Russian customs union plans, 4.01.2013). At the same time he also expressed his hope that the AA with the EU would be signed in autumn 2013. It got the answer in Europe – in February 25, 2013 President of the European Commission José Manuel Barroso made the EU point of view pretty clear: „One country cannot at the same time be a member of a customs union and be in a deep common free-trade area with the European Union” (Barroso: Both FTA and customs union membership „not possible”, 26.02.2013).

## **2. UKRAINE – THE EUROPEAN UNION (The perspectives of the AA signing for Ukraine and its European integration vector)**

Ukraine's potential AA with the EU has been considered by the European Union as being incompatible with Ukraine entering the customs union with Russia, Kazakhstan and Belarus almost from the very beginning. The integration within the customs union of the further Eurasian Union would end the chances for the Association Agreement with the EU according to European Commission President José Manuel Barroso as we stated above. As for the cancel of Viktor Yanukovich's visit to Moscow to negotiate with the Russian President Vladimir Putin, the director of the Political Researches and Conflict Studies Centre Mykhaylo Pohrebyn'skyi noticed that between the official confirmation of the Presidents' visit to Moscow and its cancel José Manuel Barroso called to Ukrainian President. „It's difficult for me to say whether this conversation could influence the assessment of the document (concerning joining the Customs Union) by the Ukrainian side, but I don't exclude it", – Pohrebyn'skyi said (Ivzhenko, 2012a).

Whereas signing the AA for Ukraine would be a symbolic insurance against coming back under Russia's sphere of influence, as many experts think. Also the agreement could be an instrument for Ukraine's modernization and deep economic integration into the single market of the EU. But it directly depends on Ukraine and its readiness to modernize its economy and approaches to the issue in general. The significance of the document signing is also defined by the fact that it wouldn't be just an agreement concerning the liberalization of the goods trade – it's going to be a „deep and comprehensive" agreement providing also the liberalization of services trade and capital movements and to a certain extent – the labour movement (Eliseev, 2013). It also is providing a major adaptation the European regulatory legislation in Ukraine in the areas of transport, energy, services, agriculture etc. And what is of the most significant the agreement between the EU and Ukraine will be based on the recognition of the European identity of Ukraine. The agreement signing definitely doesn't mean the EU membership. But for Ukraine the European integration firstly means standards of life improving, modernization of spheres of state and society, improving the competitiveness of Ukrainian producers etc. The agreement would allow Ukraine to reach that level of development where the further movement towards the EU becomes the issue of the political expediency.

The fundamental decision for the perspectives of Ukrainian foreign policy was made at the EU – Ukraine summit in Brussels on February 25, 2013 and Ukraine is to make a progress and to prove its willingness to commit to the EU economic space till the deadline that was defined as May 1 for the reforms implementation due to the following: selective justice (first of all Tymoshenko's case), democratic shortcomings and judicial reforms.

The tension degree in the relations between Kyiv and Brussels has weakened – all the Ukrainian mass media as well as many politicians declare that the country

is preparing to association. „Two laws from ten have already been passed, two of which in the first reading. I hope when the parliament comes back from their May holidays, till the end of the month all other laws will also be adopted. I'm sure that the 71 clauses will be accomplished”, – the Secretary of the National Security and Defense Council of Ukraine A. Kliuiev assured after his official visit to Brussels in April 23-24 (Ukraine is implementing 71 clauses for association with the EU, 25.04.2013)<sup>1</sup>. The European Commissioner Štefan Füle also gave his assessment to this meeting that was an opportunity to take stock of the actions taken by Ukraine to follow up on the commitments discussed at the 25 February European Union-Ukraine Summit. „The set of documents adopted by Ukraine to ensure the follow up of the EU's policy of engagement reflect its determination to achieve the objective of signing the Association Agreement and its Deep and Comprehensive Free Trade Area by the time of the Eastern Partnership Summit in Vilnius”, Commissioner Füle said, added that „our on-going screening of Ukraine's envisaged actions shows that some outstanding issues require additional attention” (Statement by Commissioner Štefan Füle following his meeting with Andriy Klyuyev, Secretary of Ukraine's National Security and Defence Council, 24.04.2013). It's important that Tymoshenko's name isn't in the list of the EU demands for now. The perspectives are becoming more realistic and clear.

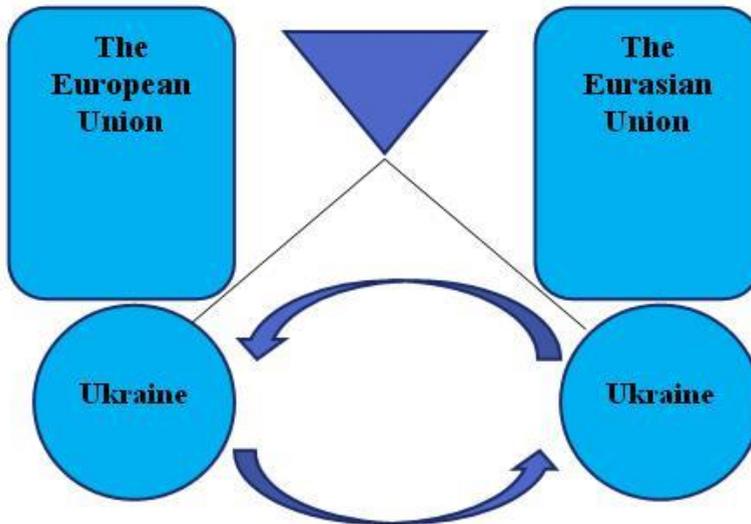
### **3. THE EUROPEAN UNION – UKRAINE – THE EURASIAN UNION (or „pendulum character” of Ukrainian foreign policy)**

As Ukraine has declared its multi-vectorial foreign policy at the very beginning of its independence, the problem of choosing the dominant vector between several proposed has different roots. Many scholars consider such multi-vectorial foreign policy of Ukraine to have a pendulum character, shifting from West and East (see Figure 1) As for the recent years of Ukrainian foreign policy instead of conducting the stable approaches towards the EU or the Customs Union (the further Eurasian Union), Ukraine has chosen to take good advantageous of cooperation and further integration with both partners to the most conceivable though risky level.

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<sup>1</sup> Andriy Kliuiev was appointed by the President of Ukraine in March 12, 2013 to ensure coordination of activities of the central executive authorities in the field of European integration of Ukraine and interaction with EU institutions.

**Figure 1. „Pendulum character” of Ukrainian foreign policy at the current period**



In December 2012 the Ukrainian Prime Minister Mykola Azarov stated that Ukraine could and should cooperate with both the Customs Union and the European Union at the same time. According to him, Ukraine is currently making significant progress in relations with the EU. At the same time, the Ukrainian Prime Minister believes that movement towards the Customs Union in terms of the intensifying integration process in the post-soviet area also meets Ukraine's national interests, as the member states of the mentioned union are among the biggest trade partners of Ukraine. „More than a third of our trade volume is related to the Customs Union. This fact obliges us [Ukrainians. – Author.] to find a consensus and, if it is necessary, to join separate agreements within the Customs Union”, – Mykola Azarov said (Azarov: Ukraine could cooperate with Customs Union and EU, 17.12.2012). It's an evident example of the urgent discussions of the integration vector's priority in Ukraine. It may also be proved with the statements and remarks made by the leader of the movement „Ukrayinskyi Vybir” („Український вибір”) Viktor Medvedchuk who is actively supporting the Eurasian integration launched a big campaign within the whole Ukraine promoting the Customs Union in the regions or the deputies Viktor Penzenyk („Udar”/„Удар”) and Serhiy Teriokhin („Bat'kivshchyna”/„Батьківщина”) who are supporting the European vector of foreign policy of Ukraine. The pendulum character of the choice may be cited as the following opinion that it's better to move to the Customs Union from the economic point of view and to the EU – from the political and legal perspectives. At the same time the deputy of „Party of Regions” („Партія регіонів”) Serhiy Tihipko stated

that he really stands for the cooperation development with the Customs Union members but the vector to the EU integration considers to be the prior and the most important. „The integration to the EU allows to make a quantity leap to the legislation improvement, in the changes of social, political and economic spheres. Ukraine must use this chance for 100%” (Ivzhenko, 2012a). The choice between two integration projects to some point isn't equal taking into account that this is a choice between the society with more than 50 years history proved its effectiveness in many rates and the evidence of its advantages and problems from one side and from the other side the hypothetical and to some extent risk relevantly new regional project that provokes in Ukraine mostly not economic questions but the political ones. In the same time the AA signing between Ukraine and the EU shouldn't worsen the bilateral relations between Ukraine and Russia or relations with other countries in the post-soviet area. Reforming in Ukraine in accordance with the AA provisions can meet the interests of all parties, including Russia, as it will provide the basis for growing confidence in Ukraine as an international partner with the rule of law and predictability, a vital joining element of trade and economic bridge between Brussels and Moscow and later a unique platform for the development of mutually beneficial relations between the EU and the members of the integration projects in the post-soviet area.

## CONCLUSIONS

One of the most significant moment that should be paid attention for by the Ukrainian political establishment – the year 2013 is the year of the civilization choice for Ukraine that will define the peculiarities of its development for the future. That's why the integration perspectives are widely discussed in Ukraine by representatives of different circles. The choice should be done, as in the modern world of globalization attempts to survive one by one are at least not farsighted. For Ukraine this choice has much more importance than just the economic perspectives. Ukraine as the „shared neighbourhood” for Russia and Europe is meeting two proposed initiatives which are to some extent provoked with the willingness to prevent a loss of influence on the country by both sides. Expansion of the Eurasian initiative to Ukraine would strengthen the union both politically and economically. For the EU obviously the agreement with Ukraine has more political meaning than economic. The initiative of Moscow has become a challenge to the EU as it demonstrated that the EU is no longer the only source of the effective governance in the region and this challenge is to be settled without a loss of the impact. Ukraine is obviously a significant subject for competition where the integration priorities towards West or East present the main foreign political agenda at the current period.

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## EUROPEAN UNION, RUSSIA AND ENP/EaP COUNTRIES

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**Abstract:** *At the beginning of XX century Richard Coudenhove-Kalergi, in his Pan-Europa (1923) as in the following "Open Letter to members French Parliament" (1924), stated that Europe needs to unify in order to confront three major challenges: Soviet Union, British Commonwealth and United States. The European unity realised in 1950 evolved until today, and it seems that the three challenges highlighted by Coudenhove-Kalergi are almost the same, although the Soviet Union, British Commonwealth and United States changed themselves. Regarding Russia, the partly successor of USSR, after a period when it diminished its international influence, it seems now to recover at least partly its place. If USSR was ever a difficult and unpredictable dialogue partner, actual Russia is not a comfortable one. How EU succeeds to manage the relationship with Russia represents the objective of our paper, and will be approached especially from EU conditionality perspective in the space of ENP/EaP. By our approach we will focus both on EU and Russia efforts to obtain and increase or to maintain and increase their influence in the region of ENP/EaP countries.*

**Keywords:** enlargement, neighbourhood, Russia-EU relationships

### INTRODUCTION

The relationship between European countries and Russia, between first European Communities and Soviet Union, or between later European Union and Russia, entailed attention both of the public opinion and of the numerous intellectuals, opinion leaders, statesmen, politicians, etc. The process of gaining the power by a communist party in Russia and the large migration to Western Europe of some parts of Russian intellectuals and representatives of noble class represented a new beginning for Western intellectuals preoccupations for Russia and communism (Baird, 2000; Ackermann, 1996). The intellectuals will not be singular in their approach of the communism, the end of the Second World War and the new European and international political realities and trends (Germany and other European states' economic, social and political situation; emergence of NATO; Korea War; Soviet Union' regional and even international ambitions; United States' role in Western Europe defence) being some very good reasons to shape the new political orientations of the European democratic states and of America (Pruessen, 1996; Guillen, 1996; Trachtenberg and Gehrz, 2003). The emergence of European Recovery Program (from the American side) and of the Organisation for European

Economic Co-operation (from the Western Europe side), and the emergence of European Coal and Steel Community, all these supranational bodies will have as basis not only the European inner objective to unite themselves, but also the deep European and American fear of ideological, geopolitical and military ascent of Soviet Union. It is not classified information that the Soviet Union of the period between Stalin and Brezhnev never supported or at least appreciated the idea of united Europe which could act as an opposite to the Soviet regional and international goals (Zubok, 1996, pp. 85-94), and it “refused to do business with the European Community as a supranational organisation until the late 1980s and regarded it on a superficial level as an economic appendage to NATO” (Bordachev, 2005, p. 40). Furthermore, USSR initially considered that European unity would not be desirable for American side, especially due to economic reasons (Zubok, 1996, p. 86). Despite any Soviet politicians’ perception, European unification process that started in 1950 will continue and will proceed to unexpected economic effects. Mikhail Gorbachev, however, appreciating both the freedom and the economic prosperity of the Western countries, will reconsider both the extent of European unification and the USSR’ attitude toward this project. Consequently, during the Gorbachev presidency it was concluded the first agreement on trade and cooperation with the EU in 1989 and a Partnership and Cooperation Agreement in 1994 (a basis for bilateral summits and regular ministerial meetings), although the most dynamic period of EU-Russia relationship will begin in the end of ‘90. (*Ibidem*, p. 94-97; Bordachev, 2005, pp. 40-42; Antonenko, 2005, p. 52). In fact, Gorbachev era will open new economic, politic, and geopolitical changes and possibilities to cooperate both for the Eastern and Western countries, although they will be not intrinsically linear and permanently positive ones. Giving to Gorbachev reforms Eastern European block countries will recover their ideological and geopolitical freedom and they will become, by their turn, members of the European unification project, having no importance if this membership means EU accession or only a privileged partnership as will be the European Neighbourhood Policy and the Eastern Partnership. For both above-mentioned EU approaches concerning the states whose chances to access EU remain inappreciable it is possible to emphasize both positive outcomes and failures (Edwards, 2008, pp. 46, 50, 52-53, 55, 57-59; Larrabee, 2006, pp. 97-98), but this type of approach does not represent the established objective of the present paper. Our goal is to point out how the former core of the superpower which was USSR, Russia, relates to the new geopolitical context that develops at its borders on the one part, and how a new and atypic international actor, EU, considers its neighbours as part of its foreign policy, on the other part.

## 1. ENLARGEMENT AND CHALLENGES OF A NEW NEIGHBOURHOOD

The end of the Cold War made possible for some of the former communist countries to become members of the European unity project, not before accomplishing a set of economic, political and administrative criteria that should prove the enough deep change in their both economic and political systems. Considering especially the NATO enlargement, the post-communist Russia did not pay enough attention to EU enlargement before 1999 (Interests and Partners, 2006, p. 81), although it concluded with EU, in 1997, an agreement for partnership and cooperation which was to come into force in 2000 and by which EU offered its support for “Russia efforts to consolidate its democracy and to develop its economy and to complete its transition to market economy”, announced its willingness for “economic, social, financial, and cultural cooperation”, and its intentions to create “the necessary conditions for the future establishment of a free trade area between the Community and Russia...” (Agreement on Partnership..., 1997, p. 5). This agreement will be followed, only at 27 April 2004, by a Protocol by which the signatories notice the EU’ enlargement, and by a Joint Statement where the two partners establish the new economic commitments, norms, and taxes. (Protocol to the Partnership..., 2004; Joint Statement..., 2004) In 2007, giving to the accession of Romania and Bulgaria, two other similar documents will be concluded, (Protocol to the Partnership..., 2007; Joint Statement..., 2007) It is well-known that some of former communist countries will access EU in two different series: in 2004, when accessed Czech Republic, Hungary, Poland, Slovakia, Slovenia, Estonia, Latvia, and Lithuania, and in 2007, when Romania and Bulgaria accessed at their turn. The management of this proximity already preoccupied the two neighbours, EU and Russia, that organised, in May 2003, the summit of St.-Petersburg, where they established the core principles of their following cooperation in economy; freedom, security and justice; external security; research, education, and culture (the so-called EU-Russia four “common spaces”). (EU-Russia Summit; Bordachev, 2005, p. 46; Antonenko, 2005, p. 52).

From internal perspective, the left (communist) political forces were rather against both enlargements, while liberalism advocacies supported European values and were against NATO enlargement. (Bordachev, 2005, pp. 43-44) The new Russia, that under Yeltsin, Putin or Medvedev administrations did not become a more democratic state, saw in 2004 its former (not voluntarily) followers dramatically changing their regional and international orientations and objectives, their military and security preferences. The former enemy of Western European states has seen how European Union “break” more and more its former influence space, while it was almost impossible to act against with the former tools (*Ibidem*, pp. 45-48). Before the first enlargement, EU and Russia tried to develop different economic partnerships, but their economic interdependencies started to become important enough especially after EU enlargement, when Russia started paying more

attention to its new atypical partner. In borders terms, the accession of the first group of states will have as result 2,257 kilometres of common border for EU and Russia (Russia became neighbour with five EU Members States), and this proximity, besides their increasing economic relationship also requested a closer political cooperation for both parts. (Antonenko and Pinnick, 2005, p. 1; Lynch, 2004, p. 101)

Concerning only EU side, in 2003, at the European Council from Thessaloniki, EU put into question the necessity of border management following the new enlargement, the necessity of a new partnership with third countries in the field of migration, asylum, human beings and drugs traffic (Council of EU, 2003, p. 3-5). In the same time, the Presidency Conclusions of Thessaloniki European Council underlined the importance of the EU enlargement in terms of “new neighbourhood”, whose “stability and prosperity is inextricably linked to ours” (*Ibidem*, p. 13). Following this orientation to the new neighbours, in December of the same year, during Brussels European Council (December 2003), it was established a new security strategy that raised the problem of “building security in our neighbourhood” and connected this security to the increased multilateralism, and so to the new neighbours (Biscop, 2010). The EU’s main task in this case was “to promote a ring of well governed countries to the East of the European Union and on the borders of the Mediterranean with whom we can enjoy close and cooperative relations” (A Secure Europe..., 2004, p. 8; Bordachev, 2005, p. 45), and this would have been possible if EU had become “more active... more capable... more coherent...” and had worked better with its partners. (A Secure Europe..., 2004, pp. 11-13) At the Brussels European Council, EU reaffirmed “the Union's determination to build a balanced and reciprocal strategic partnership with Russia, based on the values of the rule of law, democracy, human rights and fundamental freedoms and a free market economy” and stressed that “the Partnership and Cooperation Agreement, which has to be extended to the new EU Member States by 1 May 2004, will remain the cornerstone of its relations with Russia”. (Council of EU, 2004, p. 18)

All these steps represented the framework for the new approach that EU prepared for its new neighbours, namely the European Neighbourhood Policy, an approach that had as objective to close EU both its new neighbours and Russia. EU interest for Russia could not be neglected in the context of new enlargement and EU was doing its best in order to regulate this relationship.

## **2. THE EUROPEAN UNION ENLARGEMENT AND EMERGENCE OF ENP/EAP SPACE**

On the other hand, for the European Union, its Eastern enlargement did not have only economic effects, but also political and geopolitical effects, all requesting a particular approach to the region: the new neighbours, former part of Soviet Union, they just experimented many economic, social, and, last but not least, political

difficulties. The transition period was not easy to pass for any of the former communist countries, and for those that were not related to the EU accession the situation was even more difficult. Consequently, EU had to find the necessary solutions in order to improve the economic and political situation at its borders, to improve the regional economic prosperity, stability, and security in the region. (Bengtsson, 2008, pp. 598-9; Lavenex and Wichmann, 2009, p. 94-98) The considered solution materialised in a bilateral policy program, European Neighbourhood Policy, initiated in 1997 and formally started in 2004 as a privileged relationship between the EU and its closest neighbours detached from the former Soviet Union (Armenia, Azerbaijan, Georgia, Moldova, Ukraine, Belarus) and extended to those from the South Europe and Mediterranean area, Algeria, Egypt, Tunisia, Morocco, Israel, Palestine, Jordan, Syria, Lebanon, and Libya). The objective of this was to avoid “the emergence of new dividing lines between the enlarged EU and our neighbours and instead strengthening the prosperity, stability and security of all” (Cremona, 2008, pp. 246-249; European Commission, 2013c), although these states had any perspective to access the EU for the next time. In order to accomplish its objective, EU and ENP concerned that states have to collaborate in the framework of their Partnership and Cooperation Agreement, in order to realise, with EU financial support, under its monitoring, in a given term, and following an Action Plan, a set of political and economic reforms (Fröhlich, 2007, pp. 78-79) whose objective was “to develop democratic, socially equitable and inclusive societies, and offers its neighbours economic integration, improved circulation of people across borders, financial assistance and technical cooperation toward approximation with EU standards”. (European Commission, The Policy...) The main principles of ENP would be considered: *i.*/legitimacy, given by the membership of ENP beneficiaries in different democratic supranational organisations that the EU is partner; *ii.*/ coherence, realised by the compatibility of objectives of EU with democratic supranational organisations; and *iii.*/consistency, residing in the domestic up and running of the norms that EU try to make efficient amongst the ENP partners. (Manners, 2010, pp. 36-39) At the action level, Manner (pp. 40-41) put into evidence persuasion, engagement and differentiation, while for the outcomes, the same author considers that the expected effects are socialisation, ownership and conditionality (*Ibidem*, p. 41-43; Sasse, 2010, pp. 181-183).

The ENP will be upgraded in 2009 by a new neighbourhood approach, Eastern Partnership (EaP), focused both on a deep bilateral and a permanent multilateral (horizontal) cooperation of EU with concerned states (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine) and with two other regional projects, Black Sea Synergy and the Northern Dimension. This multilateral approach (a institutionalised and permanent relationship both between EU and EaP states and other regional actors, on the one side, and between the EaP states and other regional actors, on the other side) was perceived as a very important tool to solve the tensions between the EaP states and neighbours, and the example of relationship between Ukraine and

Romania could be the most appropriate example to demonstrate the utility of Eastern multilateralism (Larrabee, 2006, pp. 106-107). The new project clearly established the areas of cooperation (politics and security; border and trans-border movement; economic and financial; environment and social), and the new means of the bilateral partnership, namely Association Agreements and Deep and Comprehensive Free Trade Agreement (for the second, exception making Azerbaijan and Belarus). For the multilateral agreement, it was established an institutional framework whose originality is related to different covered fields: summits of heads of states & governments; meetings of foreign ministers; multilateral thematic platforms; EaP Civil Society Forum; Euronest; Group of Friends of the Eastern Partnership. (Polish-Sweden Proposal, 2008; Eastern Partnership Community, 2013) The most important outcomes of EaP concern the integrated border management, aid for SMEs, energystreamlining, environmental protection and civil protection, implementation of Visa Action Plans with Ukraine and Moldova, in order to liberalise visa obtaining process, and Visa facilitation and readmission agreements with Georgia; Moldova and Ukraine membership in the EU Energy Community. Despite the EU efforts to stabilise the region, the progress is considered as being not enough: corruption, frozen conflicts, economic and political backlashes are again some constancies in the region and finding solutions seems not to be a so easy process. (Jensen, 2012)

### **3. ENP/EaP AS A NEW FRAMEWORK OF REGIONAL RELATIONSHIPS BETWEEN EU, ENP/EaP PARTNERS, AND RUSSIA**

“Moscow has always viewed the EU as being on a par with other international organisations – the Council of Europe, NATO and the United Nations (UN) – in which national governments play a deciding role in all issues” (Bordachev, 2005, p. 40). However, as we observed (in the first part of the paper), when it became evident that enlargement will be achieved and ENP will be launched, Russia considered the new context as a good opportunity to double its commitments with EU. Beside of the two protocols and joint statements, EU and Russia established a strategic partnership as a foundation for Russian energy exportation and a more dynamic investment process. (Lynch, 2004, *passim*) This agreement failed to completely materialise both the EU military and foreign policy objectives and the economic expectances of Russia (Bordachev, 2005, pp. 45-46). From economic relationship perspective, the main difficulties were provoked by the Russia’s insufficient economic reforms, the less diversity of exported goods (especially raw materials) and internal market disequilibrium, the unpredictable gas and oil prices, the rejection of EU’ conditionality, etc. Not less important in the EU-Russia relationship was the process of negotiation of Russia’ accession to World Trade Organisation, while Russia often tried to unfairly constrain EU to support its candidature, and that finally realised in 2011. (Barysch, 2005, *passim*; Lynch, 2004, pp. 99-100; Speech..., 2011)

The economic area always helped Russia to play its role with EU, but this is not the case in the security field, especially after the two EU' successive enlargements. EU' expansion to East came with its first police and military missions, in Bosnia-Herzegovina, FYROM and Congo. (Lynch, 2004, p. 100) If we consider that post-communist Russia was involved only in some regional conflicts, where the adversary was not an equal both from military and political perspective, and which is believed that it caused and maintained them, the global actorness of Russia is not its best card. Consequently, as Lynch underline quoting Vladimir Putin, Russia choose to show its strength by "defending" its internal prerogatives and policies: "As a world power situated on two continents, Russia should retain its freedom to determine and implement its domestic and foreign policies, its status and advantages of a Euro-Asian state and the largest country of the CIS and the independence of its position and its activities at international organizations", and this although Russia "...must seek to dramatically improve the effectiveness of cooperation" and the quality of this cooperation with EU (*Ibidem*, p. 103).

If during the Cold War Soviet Union interests concerned almost all the regions of the world, actual Russia's vanities are most visible at its border regions, where it developed, after 1991, numerous military activities. Amongst these regional conflicts, that from Transnistria, that involve the Republic of Moldova and Ukraine, is the older (it started in 1990) and the nearest by EU' Eastern borders. (Russia, 2011) The conflict of Transnistria represented one of the most important vulnerabilities both for Ukraine and Moldova in their commitments with EU. The both countries stated (in different moments) their interest for EU accession, but their domestic problems (almost the same for the two countries, namely weak democratic institutions; low freedom of the media and freedom of expression; the respect of minorities' rights; corruption at public level) and the conflict from Transnistria represented major barriers in considering their Europeanist designs. (Sasse, 2010, pp. 183-185, 190-191, 194-196) However, due to their membership in ENP/EaP agreement, Moldova and Ukraine benefited by EU support in solving their problems concerning the border with Transnistria. Hence, starting with 2005, when EU nominated a Special Representative for Moldova and European Union Border Assistance Mission to Moldova and Ukraine (EUBAM) established in the region, the situation remediated noticeably, although the Special Representative and EUBAM didn't intervene at political or military level. Regarding EUBAM, it is offering technical support to "border guard and customs services, reinforcing their capacity to tackle customs fraud, detect cases of smuggling and THB (trafficking in human beings), and carry out effective border and customs controls and border surveillance" (EUBAM, 2013b). (*Ibidem*, 190-191; Biscop, 2010, pp. 83-84; EUBAM, 2013c; European Commission, 2013b; European Commission, 2013a, p. 8) Regarding EUBAM, its relationship with ENP/EaP framework is obvious: "In the context of the EU Neighbourhood Policy and the Eastern Partnership, the EU Border Assistance Mission to Moldova and Ukraine (EUBAM) offers a two-fold

contribution. Firstly, the Mission promotes the approximation of EU standards and practice in border management in the Republic of Moldova and Ukraine. Secondly, as a monitor and a neutral, technical advisor, EUBAM contributes to the peaceful and sustainable settlement of the Transnistrian conflict. Both these elements directly support the aspirations of EU member states for regional security, stability and prosperity.” (EUBAM, 2013a) Consequently, from security point of view, EU appears to register some pre-eminence over Russia in the new emerged ENP space: EU is now directly involved in monitoring some regional frozen conflicts, as those from Transnistria and Georgia, that dominated many years the European security agenda. The successful intervention of EU is considered as owing to the fact that it adopted “a very careful policy, emphasising monitoring and capacity-building rather than grand initiatives aimed at conflict resolution”, although this kind of action was not so useful in Georgian case (Biscop, 2010, p. 83). Probably as a consequence, Russia accepted to be more “assertive... in promoting the resolution of conflicts on its new borders”, the proofs being Russia’s acceptance to withdraw its troops from Moldova and Georgia. Furthermore, EU enhanced its monitoring activities in the Commonwealth of Independent States (CIS), which dare to oppose to some peace proposals of Russia (as in the case of Kozak’ federalisation plan, rejected by Moldova). On the other hand, EU appears to be an enough firm political actor when the some Justice and Home Affairs objectives were necessary to be achieved (human security, illegal migration, organised crime and smuggling, border management, nuclear proliferation, environmental hazards). (Antonenko, 2005, *passim*) Another considered solution in improving the securitization role of EU is considered by Biscop (2010, p. 85) as residing in a better use of EU and Member States position in OSCE, both from the perspective of hard security as of the bilateral relationships with ENP/EaP states. According to Vladimir Chizhov, the Permanent Representative of the Russian Federation to the European Communities, Brussels, starting with 2005, Russia and EU “enjoy” both the same neighbourhood in Eastern Europe and they both could and should develop their own interests, outside of any individual monopoly. Chizhov considered, however, that EU’s presence in the region had to respect “the legitimate political and economic interests of Russia and the sovereignty of the post-Soviet countries as full-fledged members of the international community and not chips in a global power play. [...] It would be counter-productive to force countries of the former Soviet Union to choose between Russia and the EU. As we saw in Ukraine, this can destabilize the domestic political situation and negatively influence relations with both Russia and the EU.” (Interests and Partners, 2006, p. 90) The syntagm of “legitimate interest” and the idea of “forcing” some independent states to choose in their international or regional commitments could be in the same time difficult or easy to interpret, but this interpretation is not an easy task for EU, this is sure.

## CONCLUSIONS

Probably as expected at that time, Russia decided not to be part in ENP/EaP, but the two projects developed besides different EU-Russia agreements and partnerships, and respectively besides the latter Partnership for Modernisation. Despite its initially “indifference” concerning EU’s enlargement, Russia tried to obtain some benefits from the EU enlargement, although not all of its requests were granted (the failed request for freedom of movement for Russian citizens of Kaliningrad; a special visa regime for border-traffic facilitation; rights of Russian-speaking minorities in the Baltic States; trade quotas; World Trade Organisation membership) without giving anything in turn (democratisation, domestic reforms, rule of law, fight against corruption, etc.), only as a reward for the damages provoked by EU enlargement. (Cichocki, 2005, *passim*; Bordachev, 2005, pp. 39, 44-46, 49; Antonenko, 2005, p. 60-61, 66) Staying aside for ENP/EaP, Russia maintains its peculiarities and “Far from aspiring to an EU-type decentralised, socially focused, and democratic system of governance, Russia is seeking to modernise through a strong state model, where elections co-exist with the increasingly authoritarian rule of the bureaucracy, and privatisation is followed by increased state intervention in the realms of business and private property.” (Antonenko and Pinnick, 2005, p. 2) The European democratic model, the decentralisation of political power and administration, collaboration with civil society, any of these European values and principles is interesting for Russia. Despite of all the democratic and identity lacks of the post-communist Russia, Aleksandrova-Arbatova (2012, pp. 14) considers Russia as more and more conscious of the necessity of deeper inner changes and of the risk to be marginalised by the “modern world” (that is EU, USA, Japan, South Korea) out of these. According to Arbatova, Russia seems to be ready to accept its modernisation/democratisation by agreeing the “Partnership for modernisation”, in 2009, which purpose was “to help modernize Russia’s economy and adapt the whole complex of Russian-European relations in accordance with the experience of the existing dialogue instruments of “sectorial” Russia-EU cooperation” (On the Russia-EU initiative). However, Aleksandrova-Arbatova (p. 15) recognises that at political level there are many things to change (as for example protection of private property, adoption of intellectual property rights, to practice the real division of political powers, etc.). The 2009 partnership focuses especially on Russia’ economy, but it also includes some references to the necessity of enhancing cooperation with civil society. It is difficult to envisage how much Russia will modernise itself due to this new agreement with EU, especially if we consider that the situation issued after the last elections is by far appreciated as democratic. However, it is mandatory for EU to reconsider the neighbourhood of Russia as one of the most important, both because of Russia’s unpredictability as international actor, and because of its domestic authoritarian legacy.

On the other hand, even if it is staying again outside of any idea of ENP/EaP membership, Russia's influence in the given area could not be ignored or neglected. In the same way as EU tries to play a multilateral game in Eastern Europe, Russia's influences are not only unilateral and are materialised both in economical and political terms. The interdependencies of Russian' influence are very early and "prophetically" emphasized by Larrabee (2006, p. 94, 98, 106) as residing in Russia's decision to increase the gas price for Ukraine, starting from 2005, and in its disappointment concerning some domestic political aspects in Ukraine. Hence, according to Larrabee, a chain reaction might have resulted, with both internal and external outcomes: the failure of Orange Revolution, namely of the pro-European Ukrainian groups, could have as result more difficulties for Georgia and Moldova in achieving their pro-EU aspirations; an easiest way toward a more and more authoritarian regime for Belarus; a largest Russian influence in the region in a disadvantage of EU influence. Time confirmed Larrabee's scenario, for all the three concerned states. However, the most obvious case of Russian influence in an ENP country remained, it is sure, that of Belarus. Here, domestic political situation and Russian financial aid directed public opinion to a more indifferent attitude toward EU, a Russian integration being preferred to a possible EU integration (although this social tendency could have as basis the public opinion awareness concerning the almost inexistent concrete possibilities to access EU). (Borowska, 2012) The Belarus' political regime and the strong ties with Russia caused the lack of interest from the part of EU to continue maintaining this state in EaP, although it is trying to continue both the relationships and monitoring activities.

Although some years ago the ENP/EaP countries were dramatically interested to improve their relationship with EU and even to access it, actually it seems that this objective lost its importance, despite of EU support for reforms and stability. Offering a completely unpredictable or even chimerical membership, EU became less important as a normative power for the ENP/EaP states. Russia has not become yet a more interesting partner, but it is very close to this and often its redoubtable neighbourhood forces the ENP/EaP states pay attention to its regional interests. Moreover, the ENP/EaP states appear to have learned how to benefit from the two sides (Costea, 2011, p. 266) and seem to have understood that they have to do slalom through EU endless conditionality and Russia's threats, and that they have to wait the right time for more independent decisions. It is for EU to improve its Eastern strategy, to find new methods and incentives for the stability, democratisation and modernisation of Eastern countries.

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# GUARANTY PROVIDING BY THE EUROPEAN UNION IN THE ECONOMY INTEGRATION IN THE CONTEST OF THE EASTERN PARTNERSHIP IMPLEMENTATION

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**Abstract:** *Implementation of the EU economic interests is one of the main tasks of long-term policy to East Europe and South Caucasus countries direction. The EU is eager to create a common economic area with 6 Eastern Partnership countries to ensure its economic interests. Deep and Comprehensive Free Trade Area is the main element of this common economic area. The Eastern Partnership has to accelerate negotiations on DCFTA between the EU and the partner states. Currently four countries lead negotiations about DCFTA with the EU. They are the following: Ukraine, Moldova, Georgia and Armenia. Azerbaijan and Belarus didn't start the negotiations, because they are not among the members of the World Trade Organization that is a basic condition to DCFTA. Separatism creations are painful question for Moldova and Georgia because it can be estimated as a threat faced to their future implementation DCFTA warranties.*

**Keywords:** DCFTA, Eastern Partnership, economic interests, European Union.

## INTRODUCTION

The EU strategy aim is a balance and stable social and economical progress which can be rich by expanding and strengthening economic, political and social integration. One of these integration elements is a common economic area. Common trade policy is the one of characteristic feature of European Union. The Treaty Establishing the European Economic Community 1957 announced about association of member-countries to the customs association bases on the principles and conditions of the General Agreement on Tariffs and Trade (GATT). It is necessary to pay attention that this Treatment not only eliminate customs borders between members-countries, but also imply to create common trade rules with the third countries (Treaty Establishing the European Economic Community – 1957).

EU Trade policy is base on the Common Treaty. Also there are policies of member-countries EU which made common trade policy comprehensive and detailed. Disadvantage of such policy is lack of flexibility and speed in international negotiations. But in any way Trade policy is called one of the strongest policy EU among its others.

Current economic and political EU situation don't show any reasons to talk about future enlargement of the list of member-countries of this organization. But in the same time EU have to enlarge the borders of its economical and political presence at the East Europe and South Caucasus countries. Economical integration of EU partner countries has to lead to this aim.

## **1. EASTERN PARTNESHIP INSTRUMENTS FOR ECONOMY INTEGRATION OF EASTERN EUROPE AND SOUTH CAUCUSES COUNTRIES**

Eastern Partnership is one of instruments of EU directed to economy integration. In the scope of this initiative on the level of multilateral cooperation the Platform *Economy Integration and Convergence Rate of EU* was founded. This platform concentrates on issues of trade, legal and regulatory cooperation in trade and its precondition to negotiation about Deep and Comprehensive Free Trade Area (DCFTA) between EU and partner countries of Eastern Europe and South Caucasus.

Multicooperation of the Eastern Partnership includes few programs. One of this Small-and Medium-Size enterprise (SME) which was found in the scope of this Platform #2 *Economy Integration and Convergence Rate of EU*. This initiative has to strength small and middle business in the partner countries of EU by developing business environment in these countries. Eastern Partnership proposes to the countries' small and middle business consultations, finance and technical help, to improve regulatory framework of the countries.

Bilateral economic cooperation in the scope of Eastern partnership is negotiating and signing a Deep and Comprehensive Free Trade Area (DCFTA). In particular, EU tries to open markets and create a common economic space with the countries of the region by Eastern Partnership implementation. DCFTA is the part of the Association Agreement, which provides for open markets and economic integration as an integral component of sustainable development of partner countries EU (*Joint Declaration of the Prague Eastern Partnership Summit*, Prague, 2009.). The Treatment about DCFTA provides maximum liberalization not only in the sphere of trade of goods, but also trade of services and investment. The signing of this Agreement country means that the country takes up to 95% of the EU law, while the signing Treatment about Free Trade Area (FTA) provides for the adoption of legislation countries 40-60% (Байрамов, 2011, p. 162).

The signing Treatment about DCFTA with each country will give a possibility to create a DCFTA net which will be able to unite in Neighbourhood Economic Community in a long-term perspective. DCFTA with each country would allow to create a network DCFTA, which in the long run will merge into a Neighbourhood Economic Community. For the partner countries of the European Union, it sounds very appealing because it can accelerate the process of approaching the EU. The aim of DCFTA is removal of trade barriers and harmonization of legal

norms in important trade sectors, which particularly belongs antitrust law and public procurement, as well as veterinary control of animals and plants, animal welfare, customs and border control. Opening markets in all areas is carried out in stages and in parallel with the gradual bringing of partner countries legislation to European law and institutional reforms. The extent of the opening to the EU market will depend on the realization of economic and administrative reforms in the partner countries. Signing DCFTA improve the investment climate in the country, which, in turn, lead to increased flow of foreign direct investment (Boonstra J., Shapovalova 2010, p.14).

Deep and Comprehensive Free Trade Area is very important instrument for spreading EU influence to member countries of the Eastern Partnership. DCFTA insure strong economic presence of the EU in Eastern Europe and the South Caucasus. European producers will be able to use DCFTA benefits more than producers from partner countries because the first one produces more competitive products. Some researchers believe that free trade will not be a powerful incentive for countries of the Eastern Partnership, but also if the EU fails to take the liberalization of agricultural trade, especially in the case of Moldova, Armenia and Georgia, it can have a negative impact (Boonstra, Shapovalova 2010, p.14).

DCFTA will lead to growing of competition in the partner countries areas. As a result we can expect products quality growing. But also there is a threats that partner countries would not be able to propose more competitive quality products than EU products ant it would lead to deteriorating of economic situation in partner countries (Ланг, 2011, p. 32).

## **2. CURRENT SITUATION OF IMPLEMENTATION OF ECONOMY COMPONENT OF THE EASTERN PARTNERSHIP INITIATIVE**

The level of countries' negotiations on DCFT is indicator of the Eastern Partnership implementation in the economic sphere at the current situation. The level of interest and the negotiations for this agreement, each country participating in the initiative, substantially different. It depends on the prior cooperation of a country of the EU economy and, in particular, in trade, membership in the World Trade Organization, economic development and its ability to implement changes in the regulatory framework and more.

### **2.1. Progress in DCFTA negotiation of each Eastern Partnership participant country**

#### **2.1.1. Armenia**

For Armenia, a member of the WTO since 2003, economic cooperation, including signing DCFTA, - a chance to overcome its economic isolation arising out

of the direction of its foreign policy only in cooperation with Russia (Sikorski T. 2011, p. 525). February 20, 2012 Armenia and the EU launched negotiations for the conclusion of DCFTA. Armenia hopes that joining the Deep and Comprehensive Free Trade Area will not only increase the volume of foreign trade of the country, but also help attract foreign direct investment and increase stability within the state. Experts point out that the Government of Armenia believes that the integration of the European Economic Area for the Armenian economy creates immunity against future crises.

### **2.1.2. Belarus and Azerbaijan**

Analyzing the Eastern Partnership effectiveness in achieving economic interests of the European Union in Eastern Europe and the South Caucasus, rather unexpected is that the situation between the EU and the Republic of Belarus and the EU and Azerbaijan are somewhat similar. The EU has not yet been negotiating with Belarus and Azerbaijan to sign DCFTA. Both countries are not a participants of WTO, which rules is basic for DCFTA. Inconsistency of low basic of the country to WTO makes it impossible to start negotiations on DCFTA. To integrate Belarus to CES is rather difficult task because of number of domestic problems. There are many barriers to the country's integration such as: an authoritarian political system, centralized economy, the weakness of civil society (Калитеня, 2011, p.139).

Unlike Belarus, Azerbaijan aims at integrating the national economy into the European economic system. Azerbaijan is interesting in improving the quality of its produce in order to enter markets.

### **2.1.3. Georgia**

In early 2012, Georgia started negotiations with the EU on DCFTA. Note that the EU is Georgia's largest trading partner. Representatives of the Georgian official authorities hope that the signing of DCFTA solve major problems, especially in the external sector of the economy, namely the increase in and diversification of exports of goods and services imports growth of technology "know-how", competitiveness and improve overall balance current account in particular, enhancing the flow of foreign direct investment. Feasibility DCFTA shows that in the case of Georgia signed DCFTA with the EU, Georgian exports further increased by 13.3% five years after the signing of this agreement, ie by 2.7% on average per year. This growth will largely be provided by traditional trade categories (ferroalloys, fertilizers, building materials, wine, etc.). However, DCFTA will help expand commercial export structure (Какулия, 2011, p. 151).

In terms of distribution and application conditions DCFTA in Georgia to consider the issue of separatist entities - Abkhazia and South Ossetia. Official Tbilisi is unable to provide effective control over that areas, including the customs issue,

which means that Georgia is not able to provide conditions DCFTA spread throughout the territory within its internationally recognized borders. According to expert opinion, to sign the Non-Proliferation DCFTA with the condition of this agreement for Abkhazia and South Ossetia official Tbilisi will not go away. Such a move would undermine Georgia's doctrine that calls for the reintegration of the separatist territories and cause a negative public opinion, which is a very sensitive issue relates to the territorial integrity of the country (Sikorski, 2012, p. 659).

#### **2.1.4. Moldova**

The negotiations on DCFTA is serious and necessary step for Moldova, which it made in 2012. To sign DCFTA Moldova and the European Union has a strategic importance for the first. EU is the most important economic partner for Moldova. Pay attention to this it is very symbolic expression of the EU Commissioner for Trade Karel De Gucht: "The Common Market with the EU - a chance for Moldova" (Хорбовский, 2012). As the first half of 2013 the Moldovan government is in the process of negotiations on DCFTA, trying to work out a balance between the threats and the benefits it receives as a result of the signing of this agreement. There are predictions that the final commissioning DCFTA preceded by a long transition period, which will allow the country to mitigate the negative effects of the adjustment of its economy and create conditions for the development of Moldovan enterprises possibility to compete with European. Speaking about the effectiveness of the EU in Moldova, consider the problem of Transnistrian Moldovan Republic, which conducts its own trade policy. The difficulty lies in the fact that the official Chisinau has no control over this territory, which means that it is not able to fulfill all the conditions DCFTA and Association Agreement (Lyubashenko, 2012, p. 651).

Ukrainian expert I. Lyubashenko considering two options for action which arose in relations between Moldova and the European Union. The first - the temporary withdrawal of the unrecognized Transnistrian customs territory of the Republic of Moldova, the second - involving officials from Transnistria to negotiate DCFTA. However, there is a danger that the use of the first or second option would be seen as recognition of Transnistrian Moldovan Republic. According to experts, a compromise between it and the official Chisinau able to develop a mechanism that will enable Transnistria to a free trade area between Moldova and the EU (Lyubashenko, 2012, p.651)

#### **2.1.5.Ukraine**

Ukraine is a leader in negotiations on DCFTA. Negotiations on this document which Ukraine was started in 2008 in the same year, joining the WTO, Ukraine has canceled all export taxes. Note that the commitments made in the WTO Ukraine,

forbidding her to participate in the Customs Union that unites Russia, Kazakhstan and Belarus. In case of Ukraine entry to Customs Union Russia promised it an annual discount of \$ 8 billion to the purchase of gas and \$ 3 billion to the abolition of duties on oil, and, according to Putin, the country will further economic growth by 1.5-2% (Кірш ван де Ватер, 2011, p. 8).

The Agreement about Deep and Comprehensive Free Trade Area with the EU will be a clear signal that Ukraine has committed to implement economic reforms. Investors expect that the export restrictions (including and export duties) and intervention in the agricultural sector recede into the past (Кірш ван де Ватер, 2011, p. 1). The World Bank expects that the harmonization of legal framework governing public procurement procedures, create greater transparency, removing barriers to access or exit businesses to attract investors (Кірш ван де Ватер, 2011, p. 3). Based on the calculations made, the annual loss of state budget of Ukraine due to arrears in customs revenues account for about 320 million euros (Кірш ван де Ватер, 2011, p. 8). To implement a free trade agreement with the EU, Ukraine needs financial support in the form of loans and technical assistance programs that must be resolved before the end of negotiations (Кірш ван де Ватер, 2011, p. 3). According to scientists Artsipovska, Vyalichka, Voyke and the others, from the time of DCFTA, Ukraine's national income will increase by at least 2.5% and can reach 10% (Arcipowska, p. 25). They add that a liberalization of the agricultural sector can increase revenue Ukraine 150 million annually (Arcipowska, p. 25). Employers also get greater access to cheap loans and grants, and they will be given advice on tools to support small and medium enterprises (SME) on doing business with EU partners.

In addition, aid in border management, customs modernization of infrastructure and training for customs will increase trade flows. Compliance with EU standards, such as, for example, phytosanitary and environmental problems, promotes exports not only to the markets of the member states, but also in global markets (Arcipowska, p. 25). Agree with expert opinion that the signing of a Deep and Comprehensive Free Trade Area will bring benefits both for Ukraine in economic and geopolitical aspects thanks to strengthen its position in the post soviet area (Arcipowska, p. 25).

Experts do not except that in Georgia and in Ukraine, it is believed that the DCFTA is a burden for the country and has only a few short-term benefits. This position can be explained by fear to lose relative competitiveness of these countries as a result of the adoption of stringent European standards for quality (Sikorski, 2011, *Eastern Partnership in Georgia: First Results* p. 438). European officials add that DCFTA will not even bring short-term benefits, but expensive cost "( Popescu, 2011, p. 53).

## CONCLUSIONS

DCFTA is an important part of Association Agreement. The idea DCFTA can have mixed results. That aspects what for the neighbors of the European Union should be an important stimulus is a form of cooperation that conceals serious risks at least in the short and medium term. DCFTA mean for the economies of neighboring states of the European Union a significant cost to adapt its market to EU requirements.

At the current period none of the partners had signe the agreement. Although four of them, namely Ukraine, Moldova, Georgia and Armenia, negotiating its signature. DCFTA open the European markets for partner countries and in the same time increase and facilitate the presence of European goods on the territory of DCFTA. It is expected that this situation can have two opposite versions of events. The positive scenario is that the tariff-free access of European industry will result in greater competition in countries that signed the DCFTA, and at the same time will lead to improving the quality of their products. We expect the following: if at the time of the signing of a partner does not improve quality performance of its products, DCFTA adversely affect the economy of the Eastern Partnership.

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# IMPACT OF EASTERN PARTNERSHIP ON THE ECONOMIC DEVELOPMENT OF GEORGIA AND UKRAINE

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**Abstract:** *This paper aims at reflecting upon the EU potential as a transformative power in the Eastern countries, taking Georgia and Ukraine as case studies. Starting from a series of analyses of statistical data on the current economic situation of these countries (including the effects of the global financial crisis), we try to identify EU's impact on promoting economic development, stability and better governance, the role of association agreements, free trade areas, visa liberalization, additional cooperation in a variety of fields and increased technical assistance. In the context of the Europe 2020 strategy, we also try to investigate how effective the application of conditionality was and to answer whether the EU membership prospect is able to promote reforms in the analyzed countries. The paper concludes with a forecast of the future challenging Eastern enlargement of the EU.*

**Keywords:** Eastern Partnership, EU enlargement, association agreements, conditionality

## INTRODUCTION

The Eastern Partnership of the EU (EaP), launched in May 2009, aims at accelerating political association and further economic integration of Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine with the 27 member states. This initiative sets the challenging goal of forging the necessary conditions for sustainable economic growth, enhanced stability, improved governance and stronger rule of law in the countries concerned, and greater socio-economic cohesion across the entire continent (Council of Europe, Parliamentary Assembly, 2011).

This paper focuses on the EaP implementation taking for case studies Georgia and Ukraine. Our choice is motivated by their substantial steps towards democratization (through the Orange Revolution in Ukraine and the Rose one in Georgia) and their progress in approaching the pro-Western direction.

South Caucasus has become increasingly important for the EU. The European Parliament emphasizes the “strategic geopolitical location of the South Caucasus and its increasing importance as an energy and communication corridor connecting the

Caspian Region and Central Asia with Europe” (European Parliament Resolution, 2010). In this context, the EU is interested in using its transformative power in the Eastern countries, taking into account the scenario of a future EU enlargement strategy which could include them someday.

The EU is concerned about Europe’s energy dependency from Russia that threatens European energy security. Since the supplies of natural gas are coming from Russia, it is inevitable for the EU to look for the diversification of its energy sector (Cornell, Jonsson, Haggström, 2007) and to look at Georgia and Ukraine as strategic transit partners for the EU.

Ukraine is like a balance or a bridge between the EU and Russia. It is by far the biggest Eastern Partner of strategic importance, being able to change power relations in the region. Ukraine could also change power relations inside the EU in the case of a supposed future EU membership.

In this context we investigate the influence of Eastern Partnership on the economic development of Georgia and Ukraine, using as main research methodology the case studies and the comparative analysis.

The remainder of this paper is organized as follows. The next section presents the main objectives of the European EaP initiative; the next one analyzes the macroeconomic situation of Georgia and Ukraine; section 4 treats the EU’s influence on the economic development, stability and better governance in the two countries, followed by the EU conditionality compliance in section 5; finally, we present the concluding remarks and some challenges of the future Eastern enlargement.

## **1. THE MEANING AND GOALS OF THE EASTERN PARTNERSHIP**

The EaP offers deeper integration with the EU structures by supporting the six countries in their political, institutional and economic reforms based on EU standards, as well as facilitating trade and mobility between the EU and the partner states. The EaP aims to complete the Union's foreign policy towards Eastern Europe and the South Caucasus by developing a specific Eastern dimension of the European Neighbourhood Policy (ENP). The EaP works in the framework of the ENP (which covers the EU’s neighbours in the East and South), but it goes beyond the original ENP package deepening bilateral co-operation and introducing new mechanisms for regional co-operation.

ENP is based on the values of democracy, rule of law and respect of human rights. Within the ENP, the EU offers to its neighbours a privileged relationship, building upon a mutual commitment to common values (democracy and human rights, rule of law, good governance, market economy principles and sustainable development). The ENP includes political association and deeper economic integration, increased mobility and more people-to-people contacts.

The EaP focuses on important elements of political association and economic integration, like: shared values such as democracy and respect for human rights;

development of stronger and modern institutions; opening of new trade opportunities.

The EaP has also received a lot of criticism<sup>1</sup>, because it is a single policy for countries such as Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine that belong to different geographical regions and have absolutely different cultural heritage, history, life standards and economic development.

The EaP is governed by the principles of shared ownership, differentiation and conditionality. Based on the Union's values, standards and norms, it advances cooperation in such spheres as human rights, market economy, sustainable development, good governance, energy security and many others.

The primary goals of EaP include the attainment of political association, establishment of bilateral deep and comprehensive free trade areas between the EU and partner countries, gradual steps towards visa liberalisation, leading to the introduction of a visa-free regime and the establishment of a structure of multilateral cooperation under the form of four thematic platforms: democracy, good governance and stability; economic integration and convergence with the EU policies; energy security; contacts between people.

## **2. GENERAL ANALYSIS OF THE MACROECONOMIC SITUATION OF GEORGIA AND UKRAINE**

Georgia is located in the Caucasus region at the crossroads of Europe and Central Asia, and is like a bridge connecting important economic regions. Georgia is a key link in the shortest transit route between Western Europe and Central Asia for transportation of oil and gas as well as dry cargo. The economy of Georgia is highly integrated with international markets, being a regional headquarters for international firms.

Since 2004, the government has implemented extensive reforms to offer a business friendly environment to potential investors. Pro-business legislation and labor flexibility have contributed to trade liberalization and a significant growth in local production and exports. The economic growth and increased international investment has created many social benefits: increased education, employment opportunities, more specialized trades (Georgian National Investment Agency, 2013). The strong economic growth in Georgia is determined by consistent macroeconomic policies, growth in domestic consumption, rehabilitation of infrastructure and export growth (Georgian National Investment Agency, January 2011)

The country's progress in improving business climate has been well documented in some international indices. One of these is the Index of Economic

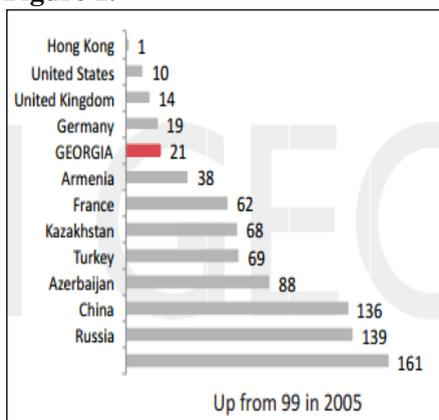
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<sup>1</sup> See, for example, Klinke (2006) and Safarikova (2008).

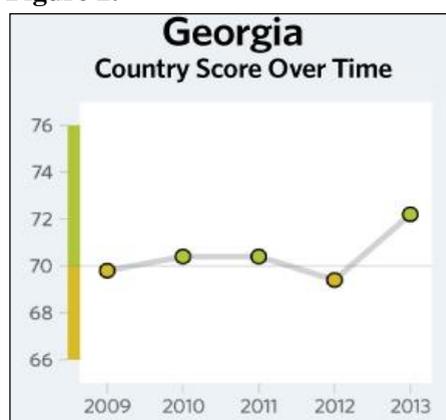
Freedom which takes into account four groups of indicators: rule of law, limited government, regulatory efficiency, open markets.

2013 *Index of Economic Freedom* ranks Georgia on the 21<sup>st</sup> place after Germany and before Armenia (Figure 1), with an overall score of 72.2, considered as mostly free.

**Figure 1.**



**Figure 2.**



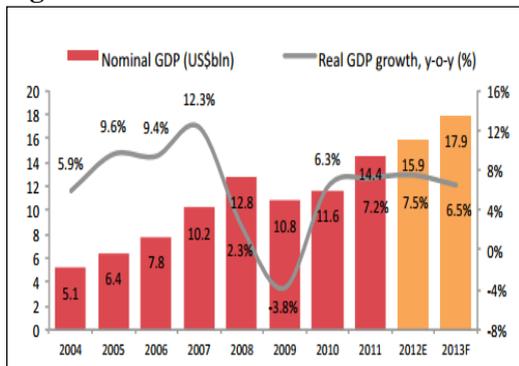
Source: Georgian National Investments Agency 2013 (Figure 1);

Source: <http://www.heritage.org/index/images/> (Figure 2)

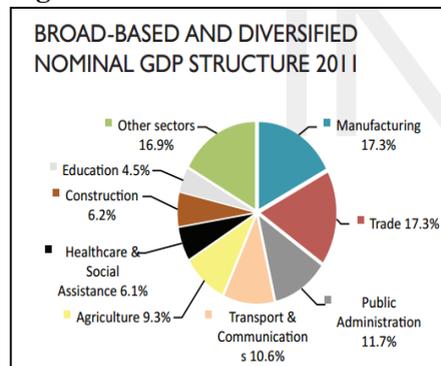
Figure 2 shows the evolution of the overall score during the last 5 years. In 2013, Georgia's overall score is 2.8 points higher than in 2012, with improvements in the management of public finance, investment freedom and property rights. Georgia is ranked 11<sup>th</sup> out of 43 countries in the Europe region, and its score is the most improved in the 2013 Index.

The 2008 war with Russia and the economic crisis slowed down considerably Georgia's economy. Figure 3 shows that in 2009 Georgia's GDP fell by around 4%, but in 2010 there was a strong rebound.

Figure 4 presents the GDP structure in 2011, showing that the service sector generates around 69% of GDP. Its main components are trade, transport, financial services, public administration and the defense sector.

**Figure 3.**

Source: Georgian National Investments Agency 2013

**Figure 4.**

The comprehensive reforms carried out by Georgian authorities after 2003 resulted in the economic growth rate reaching 10% per year and the tripling of FDI in 2005 (*Civil Georgia*, 2009).

Georgia's foreign policy has two primary goals:

- to permanently leave Russia's sphere of influence;
- to integrate with the West.

The EU shows its unconditional support for the sovereignty, territorial integrity and inviolability of the internationally recognized borders of Georgia, and calls on Russia to respect them. The EU encourages the Georgian authorities to make further efforts to achieve a settlement of Georgia's internal conflicts in Abkhazia and South Ossetia (European Parliament Resolution, 2010).

The integration with the West is seen by Georgia as a way to break free from Russia's sphere of influence. So Georgia tried to present itself as a regional pioneer of democratic, economic and institutional reforms, and as a transportation link between Europe and the hydrocarbons-rich Caspian Sea and Central Asia. To this end Georgia has taken part in a number of transportation projects, including oil pipeline, gas pipeline and railway links.

Ukraine is one of the most democratic countries in the CIS, where all elections since 2005 were approved by international observers as fair. The Ukrainians enjoy relatively free media, broad civil and political liberties, including freedom of association.

The consequences of the USSR's collapse were very painful for Ukraine. The country's GDP in 1999 was 40% of that in 1991. The Ukrainian economy started to grow for the first time in 2000. From 2000 until 2008, the economy was developing rapidly. The year 2008 was tough for Ukraine, as it was for Georgia, but for different reasons. Georgia was mainly affected by the war and Ukraine by the global financial crisis. The strongly impact was determined by the sudden fall in demand on global

markets which caused a reduction in production by as much as 50% in the key branches of the country's economy (the metallurgical and the chemical industries).

Due to the economic crisis, in 2008 the GDP fell to almost 15%. A sharp decrease of exports significantly worsened the current account balance. Falling real incomes and significant household indebtedness in foreign currency, the decline of production and the devaluation of the hryvnia, caused a crisis in the banking system. These required active anti-crisis measures and corresponding resources increased the budget deficit and aggravated the financial problems (United Nations Development Programme, 2009)

Figure 5 describes the evolution of Ukraine's macroeconomic situation during 2009 – 2013.

**Figure 5.**

	2009	2010	2011	2012'	2013'
GDP growth, % yoy	-14.8	4.1	5.2	0.2	2.0
GDP per capita, \$	2545	2974	3608	4000	-
Industrial production, % yoy	-21.9	11.2	7.6	-1.8	-
Retail sales, % yoy	-16.6	9.8	14.7	15.9	-
Budget deficit, % GDP'	-8.9	-7.0	-4.4	-5.0	-3.5
Government external debt, % GDP	20.5	23.8	21.0	19.0	-
Inflation, eop	12.3	9.1	4.6	-0.2	8.0

Source: State Statistics Committee of Ukraine, NBU, Ministry of Finance of Ukraine, 2011 Budget Law, The Bleyzer Foundation

Source: <http://www.heritage.org/>

**Figure 6.**



The 2009 volume of industrial production was only 78.1% of the same period in 2008. The most substantial declines occurred in the engineering, metallurgical, chemical, woodworking and light industrial sectors (United Nations Development Programme, 2009). The first symptoms of economic recovery were observed in 2010. For 2012, the decrease in industrial production was only 1.8% compared to 2011. Thanks to stable prices of foods, the annual inflation in 2012 posted its lowest reading in ten years.

2013 *Index of Economic Freedom* ranks Ukraine on the 161<sup>st</sup> place, with an overall score of 46.3. Its position is much lower than Georgia's, ranked on the 21<sup>st</sup> place. Figure 6 shows the evolution of the overall score for Ukraine for the last five years. Ukraine's score is 0.2 point higher than in 2012, with modest gains in monetary freedom and business freedom that outweigh declines in labor freedom and freedom from corruption.

Ukraine is ranked the last of the 43 countries in the Europe region, and its overall score is lower than the world average. Economic freedom continues to be severely repressed in Ukraine.

Despite progress in regulatory reform, administrative complexity often creates uncertainty in commercial transactions. The business start-up process has been streamlined. The labor code lacks flexibility. The government influences prices

through state-owned enterprises. Monetary stability remains weak. The investment framework remains underdeveloped.

Numerous political crises, ineffectiveness in dealing with domestic affairs and a failure to keep promises seriously undermined Ukraine's reliability on the international arena. In effect, Ukraine was not offered EU membership. The Orange Revolution caused a significant deterioration in relations with Russia. An example is the gas supply cuts from Russia to Ukraine in 2006 and 2009. Ukraine is almost totally dependent on supply of fuels (oil, gas and nuclear fuel) from Russia.

Ukraine's actual goal seems to be a return to the multi-vector policy, i.e. to balance the influences of the West and Russia and to draw benefits from both. All the moves indicate that improving relations with Russia is a priority. In April 2010, Ukraine agreed to an extension on the lease for the stationing of the Russian Black Sea Fleet in Crimea until 2042. Ukraine will continue the process of integration with the EU within the ENP framework.

### **3. EU'S IMPACT ON ECONOMIC DEVELOPMENT, STABILITY AND BETTER GOVERNANCE IN GEORGIA AND UKRAINE**

The EU remains the single most important trade partner for almost all countries in the neighbourhood. As the largest regional market, EU plays an important role in trade in goods with all the EaP countries. In 2010, it was the №1 trading partner in both exports and imports of goods for all the EaP countries except for Belarus. EaP trade turnover with the EU varies between 30% and 50% of total trade, with the lowest EU share in Georgia. By contrast, the EaP countries play a very modest role as EU trading partners. Compared to Georgia, which has been the smallest trading partner for the EU among the EaP countries, Ukraine has been the largest trading partner for the EU, ranking 23<sup>rd</sup> among the EU trading partners. The EaP exports to the EU are dominated by raw materials and unfinished products, like energy and metals, while the countries import mostly final products from the EU. By contrast, the EaP country imports from the EU are dominated by finished products, especially machinery and vehicles. The EU has played an important role in modernizing the EaP economies, supplying capital products and the organizational know-how.

Work on deepening economic and trade integration between the EU and its partners therefore continued. The EU is offering to Eastern Partnership states Association Agreement, Visa liberalization, Cooperation with an Energy community and others that were somehow transferred from the ENP.

The fundamental goal of the EU's bilateral co-operation within the EaP framework is to make its bilateral relations with the individual partner countries tighter. The Association Agreements (AA) are aimed at bringing the partner countries closer to the EU standards of governance.

The table below presents the current stages of negotiations between the EU and Georgia and Ukraine in relevant spheres.

**Table 1. The current stages of negotiations between the EU and Georgia and Ukraine**

	Negotiations on Associations Agreements	Negotiations on DCFTA	Visa facilitation and readmission agreements	Visa dialogue
Georgia	started in July 2010	started in December 2011	came into force in March 2011	--
Ukraine	started in March 2007	started in February 2008	came into force in 2008	started in October 2008

Source: AEGEE Europe, 2013

Among the three Caucasian states, Georgia is the most interested in deepening its relations with the EU. Georgian – EU relations have considerably advanced since the EaP's launch. In May 2009 Georgia joined the EaP initiative. Negotiations on AA were launched in July 2010 (Table 1).

Ukraine is regarded as a frontrunner because it has got an offer of AA in 1998, long time before the Eastern Partnership. Compared to Georgia, the negotiations with the EU started two years earlier. The EU and Ukraine started an Association Agreement in 2007 and the DCFTA<sup>1</sup> in 2008 (Table 1). Ukraine has made the greatest progress among EaP states in the process of European integration.

It is expected that until 2014 the partner countries will be taking decisive steps towards reforms to conclude an Association Agreement. The medium-term goals should be followed by better mobility and people to people contacts, economic integration, increasing trade through DCFTA, participating in the EU programmes and Agencies.

Georgia is expected to significantly profit from DCFTA. Experts estimate that a Georgia – EU relation could increase FDI from \$2.3 billion in 2008 up to \$11.36 billion in 2020 (Brenton, 2008) and an increase of Georgian exports and imports over five years, improving the trade balance.

The FTA<sup>2</sup> is expected to lead to an increase in the national income for Georgia. Wages are estimated to increase meanwhile consumer prices are expected to decrease. This implies that the purchasing power of Georgian citizens would increase because of the DCFTA especially in the long run.

<sup>1</sup> Deep and Comprehensive Free Trade Agreement

<sup>2</sup> Free Trade Agreement

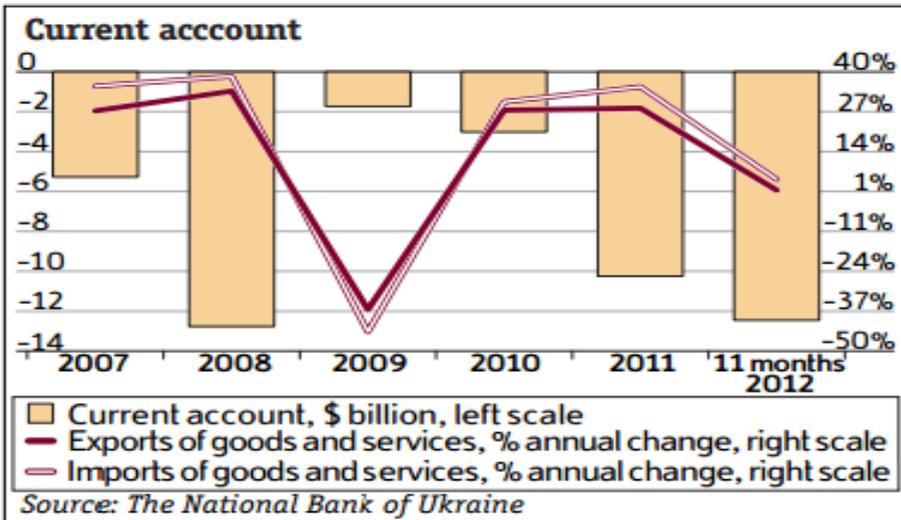
Georgia is characterized as a country that triggers the European security especially after the five-day-long Georgia-Ossetian war in August 2009. According to the experts, DCFTA is capable to increase mutual interdependence and reduce the importance of national borders that will help solving the interstate conflicts in the Eastern Partnership countries and reduce Russian dependency (Wijkman, 2011).

As same as for Georgia, the signature and implementation of the Association Agreement, including DCFTA, will have a major impact on the relations between Ukraine and the EU and should contribute to the modernization of Ukraine through the adoption of the EU standards. The agreement with Ukraine is expected to be a model for association agreements with other EaP states. At the moment, the negotiations are in a stalemate, as authorities in Kiev are not willing to accept all the EU conditions related to DCFTA.

The continuing recession in Europe forced Ukrainian producers to reorient their exports to other markets. The share of exports to Europe declined from 27.3% in 2011 to 25% in 2012, mainly due to a drop of exports to Italy and Poland. At the same time Ukraine increased its exports to Egypt, Kazakhstan and Belarus. The share of imports from Europe remained almost unchanged, slightly above 32% of the total imports. The share of imports from CIS countries declined by 4.1% in 2012, mainly due to a decrease in imports from Russia by 5.2% as compared to 2011.

The growth of imports exceeded the expansion of exports in 2012, leading to a higher foreign trade deficit and, thus, increasing external financing needs and producing less stability on the foreign exchange market, as Figure 7 shows.

Figure 7. Current account deficit in Ukraine



Currently, the risks associated with foreign investment in Ukraine are very high. To stimulate inflows of FDI it is necessary to create a clear and stable legal framework regarding the tax system, reduce corruption, implement clearly defined property rights and an effective competition policy. (Ecorys, 2012)

As already mentioned, all the EU and Ukraine contacts are influenced by the Russian Federation. Russia, considering Ukraine as belonging to the “sphere of its privileged interests” has never given up attempts to forcing Ukraine into its regional integration projects. Ukraine, with its 36% of exports flowing to the CIS countries, is highly vulnerable to the trade bans introduced by Russia. Even more dangerous is the high dependence of Ukraine on the Russian gas imports and its transit. Ukraine is the largest importer of the Russian gas, monopolist for a period of time for the transportation of the Russian gas to Europe.

#### **4. APPLICATION OF CONDITIONALITY IN THE CASE OF GEORGIA AND UKRAINE**

The EU is identified as a “community of values” and the determination to deliver its norms and values to the partner countries is applied by conditionality. This is one of the three principles governing the EaP, besides differentiation and joint ownership.

Conditionality involves a certain European based incentive structure that includes offers to each partner by “means of participation in European programs, policies, agencies, progressive involvement in the EU’s internal market, plus financial and technical support connected to the condition of concrete political, institutional and economic reforms and strengthening of European Union defined shared values” (Haglund-Morrisey and Silander, 2007, p. 89).

For instance, the signature of AAs will be conditional on the partner country’s ability to show sufficient progress in terms of democracy, the rule of law and human rights (EU Neighbourhood Info Center).

According to the experts, the interaction between the EU and domestic factors of the EaP countries influence the effectiveness of conditionality. Even though the EU offers a lot of incentives starting from non-material ones or instruments for social learning and finishing with the strongest ones of the EU membership that includes financial assistance and AAs, they are often too weak tools in order to change internal resistance against admitting the democratic and human rights norms (Schimmelfennig, 2008). This is the case of Georgia and Ukraine, too.

The *European Integration Index for Eastern Partnership Countries* (Solonenko, 2012) shows the progress made by the Eastern countries in the European integration. The Index interprets the “progress in European integration” as the combination of two separate yet interdependent processes: the increased linkages between each of the EaP countries and the EU;

the greater approximation between those countries' institutions, legislation and practices and those of the EU.

While the first process reflects the growth of political, economic and societal interdependencies between the EaP countries and the EU, the second process shows the degree to which each EaP country adopts institutions and policies typical of the EU member states.

The findings of the 2012 Index show that Moldova is the best performer, coming first in *Linkage*, *Approximation* and *Management*. The second best performer is Georgia, coming second in *Approximation* and *Management* and third in *Linkage*. Ukraine is the third best performer, ranking second in *Linkage*, third in *Management* and fourth in *Approximation*. So, Moldova, Georgia and Ukraine appear to be the frontrunners with the EU membership aspirations. The European Integration Index showed a degrading situation in Ukraine as compared to the previous years.

Management scores mostly reflect the level of interest and political will on the part of the EaP countries, while Linkage and Approximation reflect interest and effort on the part of both the EU and the EaP countries. This suggests some interdependence between the degree of commitment of the EU and that of the EaP countries.

The table below shows the results registered in 2012 for both analyzed countries. In terms of Approximation and Management, Georgia registered better score than Ukraine and in terms of Linkage, Ukraine had a better score than Georgia.

**Table 2. The scores for Georgia and Ukraine according to the European Integration Index**

LINKAGE			APPROXIMATION			MANAGEMENT		
COMPONENTS	GE	UKR	COMPONENTS	GE	UKR	COMPONENTS	GE	UKR
	0.51	0.64		0.63	0.57		0.51	0.45
Political dialogue	0.56	0.94	Deep and Sustainable Democracy	0.59	0.61	Institutional Arrangements for European Integration	0.65	0.46
Trade and Economic Integration	0.49	0.68	Market Economy and DCFTA	0.67	0.53	Legal Approximation Mechanism	0.67	0.70
Sectoral Cooperation	0.46	0.70	Sectoral Approximation	0.54	0.56	Management of EU Assistance	0.64	0.50
People-to-People	0.45	0.48				Training in the Field of European Integration	0.21	0.36
Assistance	0.57	0.42				Awareness Raising on European Integration	0.00	0.00
						Participation of Civil Society	0.90	0.70

*Source:* European Integration Index for Eastern Partnership Countries, May 2012.

Georgia has so far failed to meet the criteria of “electoral democracy”. The country’s media remains politicized. On the other hand, the government has increased the quality of public administration. Georgia has built up high-level

institutional capacity to manage European integration. The talks on an AA with the EU saw good progress in 2011 and talks on a DCFTA with the EU started up in March 2012. Overall, despite the active reform dynamic in the country, serious obstacles remain in implementing the key requirements to consolidate democracy and proper governance in Georgia.

In 2011 Ukraine's relationship with the EU deteriorated as its reform process stagnated. Political and media freedoms, respect for human rights, corruption and the business environment have become areas of major concern. The negative trends had already begun in 2010. Ukraine lacked the political will to undertake reforms in democracy, rule of law and the energy sector. Ukraine's business climate has deteriorated over the past year. Ukraine has demonstrated relatively consistent efforts to implement economic and social reforms and some reforms demanded by the Visa Liberalization Action Plan.

In this situation, we can conclude that the EaP is a proper instrument to improve the quality of government in the Eastern countries, fight with organized crime and corruption and sustain economic development. But a weak conditionality threatens the EaP because of stronger and active leverage offered by Russia to the EaP countries, including labor mobility and visa-free travel.

## **CONCLUDING REMARKS AND THE FUTURE OF THE EU ENLARGEMENT**

The analysis of the recent developments of Georgia and Ukraine reveals how extremely important is the permanent EU engagement with these countries on topics including democratization, human rights and economic reforms. The EU and its neighbours face common challenges, including economic, security, environmental and migration areas. Delivering on the commitments made to its Southern and Eastern neighbours, supporting democratic transition and economic reform and working closely with them on all aspects of their reform and policy agendas, will contribute to the EU's own security and prosperity.

On the bilateral level of the EaP, involving relations between the EU and the respective partner countries, efforts are being made to put in place association agreements and establish deep and comprehensive free trade areas.

Both countries analyzed in this paper are still in the process of democratization and economic integration with the wider world that requires fully enhanced security, political stability and sustainability in solving the conflicts.

The implementation of the EaP will not work without strong conditionality. The conditionality should be strong enough so that Georgia and Ukraine should not reverse back to Russia. The development of the EaP is not aimed at isolating Russia but, on the contrary, is aimed at bringing peace, stability and sustainable economic progress to all the parties concerned, with benefits for the whole region and the

neighbouring countries. Ukraine and Georgia are waiting for the AAs to be signed so they can move closer towards the EU legislation and the EU's Common Foreign and the Security Policy agendas. Looking into the future and to the Europe 2020 strategy, some changes are required in the neighbourhood policy, i.e. including the targets established for the EU countries also as targets in the relation with Eastern countries.

Our analysis concludes with the necessity for the EU to develop a new strategy shaped strictly on Georgia and Ukraine profile, given the importance of the region for the EU and the potential role that the EU has in fostering further the development of the region and in the solution of its conflicts.

Georgia and Ukraine have expressed their will to join the European Union and to become a full-fledged member. Analysts contend that the carefully managed process of enlargement is one of the EU's most powerful tools and that, over the years, it has helped transform the European states into functioning democracies and more affluent countries (Archick, 2013). However, the "enlargement fatigue" has become a serious issue in Europe, criticized by the US Administrations, which are interested in advancing democracy and economic prosperity throughout the European continent. The Americans have always asserted that the enlargement process is moving too slowly.

Despite the EU's professed commitment to enlargement, some EU policy makers and many EU citizens are cautious about additional EU expansion, especially to the Eastern countries, such as Georgia or Ukraine in the longer term. The addition of a large country like Ukraine could have substantial financial consequences for the Union's budget and regional assistance programs, as well as implications for the functioning of certain EU institutions. Moreover, doubts persist about the ability of the potential Eastern EU aspirants to implement the EU standards, especially in areas related to the rule of law, fundamental rights and anti-corruption measures.

Although the EU enlargement has often been prompted by geopolitics, the EU already became more selective in incorporating new members, while the financial crisis will make it somewhat less attractive to potential members (EurActive.com, 2013). Many countries aspired for decades to join the EU for the economic benefits that membership would bring. With the persistence of financial instability, Georgia and Ukraine may not view the benefits of membership as outweighing the constraints on their sovereignty and national fiscal and monetary policies. The perspective of the EU membership is made more uncertain for the two analyzed countries, as the EU leaders struggle with uncertainty about the future direction of the EU itself and so they are less inclined to robustly push forward the enlargement agenda.

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# THE EASTERN PARTNERSHIP – SOFT POWER STRATEGY OR POLICY FAILURE?<sup>1</sup>

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**Abstract:** *When the EU launched the Eastern Partnership (EaP) in May 2009, it did so with much rhetoric about projecting its soft power into Eastern Europe. Yet today, the EU's soft power project seems to have stalled, with developments in the region being less than favourable. By being another bureaucratic process, the EaP essentially replicated the main weakness of the ENP, of offering too little incentive and support to the partners. In such circumstances conditionality was a much less effective tool for milieu shaping, while the soft power appeal was equally reduced. In promoting the EaP as a policy of soft power, the EU has once again forgotten that soft power can never be separated from the 'harder' policies that would meet the expectations of those wishing to align with it. This failure of policy continues to undermine whatever gains could have been hoped for from the EU's actually considerable reservoir of soft power.*

**Keywords:** Eastern Partnership, soft power, European Union

## INTRODUCTION

At the launch of the European Union's Eastern Partnership (EaP) in December 2008, Commission President Jose Manuel Barroso declared that in comparison to the European Neighbourhood Policy (ENP) the new policy would be a significant "step change", and would project EU soft power into the former Soviet Union. "This partnership shows", gushed the president, "what could be called the power of soft power, the ability of the EU to attract others and bring about changes in societies." Six months later, at the inaugural EaP summit in Prague, Polish foreign minister Radoslaw Sikorski stated that the EU will "not apologise for the civilisational attraction of its Eastern Partnership project." If soft power is to be understood in the classic sense, as "the ability to get what you want through attraction rather than coercion and payment" and "getting others to want the outcomes you want", then the

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<sup>1</sup> A full-length, annotated version of this paper can be found at: <http://www.cbs.dk/forskning/institutter-centre/department-of-international-business-communication/center-europaforskning/formidling>.

EaP is supposedly a medium for such attraction, and for co-opting the eastern neighbours around the EU's agenda.

And yet, less than five years later, things have not exactly moved the EU's way. In fact, the EU has found it difficult to make its influence felt in the Eastern neighbourhood, and all the partner countries remain either fragile, undemocratic, economically underperforming, torn by frozen conflicts, or all at once. The notion that whole societies would change under the influence of EU soft power has clearly gone vaunting. Although the Commission claims that the EaP has been a great success in a number of ways, the conclusion at this point in time, a medium term assessment, must be that the EaP has not lived up to the high hopes.

In this paper we argue that this outcome was all too predictable. From the outset the EaP has been marked by the same ambiguity that also characterised the ENP. The issue of eventual membership has consistently been downplayed, and it has mainly been EU interests determining the scope of relations. Even if viewed as an example of the EU pursuing 'milieu goals' - that is of indirectly shaping the external environment by means of diplomacy and soft power - the 'step-change' in relations has been pursued with too little vigour to be fully effective. Largely, this reflects internal EU divisions over further enlargement (or 'enlargement fatigue') and relations with Russia. More important, for this paper, than the root causes of the EU's muddled position, which will not be treated in detail, is the lack of strategic clarity that results from it and how this makes the policy fail on its own terms. In short, the EU's ambiguous stance makes for an ineffective policy, which fails to fully consider the challenges faced by the partner countries, and is poorly geared towards both achieving its milieu goals and utilising the actually considerable reservoir of soft power the EU potentially possesses.

## **1. THE EASTERN PARTNERSHIP IN PRACTICE**

*Ukraine*, among the EaP states, has the by far most extensive and complex interactions with the EU. Following the Orange Revolution, the country was for a time among the pushiest for a membership perspective. The EaP was partly a way for the EU to upgrade relations without going that far. As a means of gaining influence, though, the EaP has been a mixed success at best. Since Viktor Yanukovich's victory in the 2010 presidential elections, concern has increased at the deteriorating state of democracy and the rule of law, focusing particularly on the seemingly politically motivated trial and conviction of former Prime Minister Yulia Tymoshenko, and other opposition leaders, for abuse of power while in office.

But has the EaP been a very purposeful way to gain leverage or bring change? Ukraine is the first EaP state to conclude negotiations - started in 2007 - on an Association Agreement, including DCFTA and the agreement was formally initialled in March 2012. However, the EU has postponed signing, let alone ratifying, the agreement, making those steps dependent on Ukraine's "...performance

[regarding]...respect for common values and the rule of law...” After the parliamentary elections in October 2012 were also judged to have fallen short of EU standards, the Council declared that signing the AA could, at the earliest, happen at the EaP summit in Vilnius in November 2013, provided Ukraine could “...demonstrate determined action and tangible progress...”. Although this can charitably be viewed as an example of the EU being true to its own values, it seems an unproductive way of seeking influence. That Yanukovych went ahead with the AA negotiations at all was not entirely to be expected at the time of his election, when he was widely seen as the pro-Russian candidate. He has, moreover, faced significant pressure from Russia to join its proposed customs union and the Eurasian Union. That he hasn’t done so, suggests a certain attraction exerted by the EU. The decision, effectively, to pull back at this late stage from a process that has been going on for six years - and which, by not including the membership perspective, is already a disappointment to Ukrainians - calls the EU’s own sincerity into question. As Ukraine’s ambassador to the EU noted, “the closer we get to the end, the more little obstacles seem to be emerging; there are several member states which don’t see Ukraine as a potential EU country, which don’t want to send any positive messages on enlargement.” It moreover removes some of the incentives for better behaviour, and reduces the potential impact of the EU’s soft power and ability to co-opt important constituencies – the exact opposite of what one would expect the EU to want.

The DCFTA has a clear appeal to Ukraine’s business community, and independent analysts suggests the agreement would, assuming reforms be enacted, be beneficial for the country in the medium term, but carry significant short-term adaptation costs. The latter could become particularly high should Russia choose to retaliate, Ukraine’s trade still being higher with Russia than with the EU. However, even among Yanukovych’s supporters in Eastern Ukrainian business circles, support for DCFTA is high, and equally so the expectation that the president can deliver. But by making DCFTA strictly contingent on political conditions being met, the EU removes the incentive for these to comply with the *acquis*, and denies itself an avenue for creating future pressure on the government. Conditionality of this sort works best when there’s something to be gained.

Regarding visa liberalisation, the picture is similar. Negotiations have been going on for a long time, the ultimate objective being the “...establishment of visa free regimes in due course...” The Commission notes progress on implementing visa facilitation and readmission agreements, but the biggest effect of the slow pace is the connection *not* created to the average Ukrainians who still struggle to get EU visas. Rather than outreach, the EU’s priority remains its own immigration and border security, and it has, once again, not made the best use of those assets that could generate soft power and influence.

Ukraine’s traditional policy, prior to 2004, was of balancing between Russia and Europe, a strategy it has on occasion tried reviving since 2010 when finding the

EU not very forthcoming. However, Russia has a number of times, even under Yanukovich, used economic pressure to try and steer Ukraine away from closer EU relations. Brussels' reactions in these cases have generally been muted and not overly supportive of Ukraine. To some extent, this very pressure, and what it implies for Ukraine's potential relationship with Russia should it give in, has in fact contributed to making Yanukovich more committed to the EU path. However, the policy has been one of repeated snubs and insistence on upfront political conditionality, while delaying on all things tangible, i.e. AA, DCFTA, visas etc. It has been an odd way of projecting soft power in support of milieu goals.

In the case of *Belarus*, it is rather a question of no change at all. The Lukashenka regime – long dubbed 'Europe's last dictatorship' – remains as intransigent as always. Past EU efforts have been intermittent at best – only in 2009 was an EU representation in Minsk opened - its policy of sanctions leading some to question whether the EU even sought change in that country. Others have highlighted the conflict between value diffusion and goals of stability in the EU's policy. Alone among the countries covered by the ENP, Belarus has never even agreed on an Action Plan. Yet the country matters for at least two reasons: as a transit country for Russian gas and as a non-compliant and hence potentially threatening neighbour.

Belarus participates in the EaP's multilateral dimension, but not very actively. On the bilateral dimension, there has been a see-saw of rapprochement and refreeze. Between 2008 and 2010, when Minsk-Moscow relations temporarily soured, the EU briefly sought to engage. A visit by Radek Sikorski and Guido Westerwelle in autumn 2010 brought an EU offer of intensified dialogue, conditional on political reforms. The violent post-election crackdown in December that year brought that thaw to an end, and a group of EU foreign ministers took to the pages of the *New York Times* to express their dismay, signalling that dialogue was now off. Since, the EU has adopted a stricter policy of targeted sanctions against individual members of the political and economic elite. By late 2010, the EU had all but abandoned the outreach initiated in early 2009.

Instead, the EU launched the 'European Dialogue on Modernisation with Belarusian Society' in March 2012, allocating €20 million for promoting civil society. Negotiations on visa facilitation have gone nowhere since 2009, regime essentially being non-responsive. Although approval rates on actual visa applications are relatively high, the application fee of €60 deters most in a country as poor as Belarus. This state of affairs blocks people-to-people contacts, indirectly strengthening the hand of the regime.

The EU has been no more successful in creating pressure on the regime by building ties to Belarus' economic elites, any changes in trade relations having been made conditional on political reform. Considering how heavily dependent Belarus' economy is on Russia, the costs of closer integration would be massive in short term and the gains uncertain for a long time. The EU's current frameworks thus offer no

realistic alternative, and Belarus is therefore currently more involved in the Russian plans for a Customs Union.

To some extent, *Moldova's* progress mirrors that of Ukraine, except being behind by a few years. Negotiations on the Association Agreement started in 2010 – the Commission reporting “very good progress” - and on the DCFTA in February 2012. Visa facilitation negotiations are also on-going, but at the same slow pace as seen elsewhere. Considering that Moldova starts from a very poor position, in a sense, things can only improve for the country, both economically and politically.

Throughout almost the entire period under consideration in this article, Moldova has experienced prolonged political deadlock over the election of a new president, a conflict only resolved in March 2012. This conflict did slow the adoption of a range of legislation needed to implement Moldova's Action Plans fully, although the process never completely stopped. Renewed political instability in early 2013, leading to the collapse of the reform-minded government, has once again cast doubt on the country's ability to see through the necessary reforms. As important has been the continuing conflict over the breakaway region of Transnistria. The EU has sought to mediate as part of the multilateral “5+2” format, but a solution remains elusive. Moldova's geographical position means it has few alternatives but to seek closer integration with the EU. Its small size probably makes it easier for the country to adapt to EU requirements, assuming the political will exists. The questions are, whether Moldova can command sufficient support from the EU to make the necessary reforms and whether the EaP will provide a sufficiently attractive framework for pursuing that process? Neither seems obvious at this point.

*Georgia* has been one of the most eager reformers in the neighbourhood and has strongly expressed its “European choice” since the Rose Revolution. In Georgia, the EU's soft power has been seen working at its best, with Georgia being the most pro-European neighbourhood country in spite of the EU's reserved stance on its efforts. While the EU has praised Georgia for remarkable progress in democratization, there is little the EU can actually take credit for: there is nothing the EU has offered to Georgia that it has not offered to other neighbourhood countries. Much of Georgia's sentiments towards the EU are today motivated by the expectations that the EU would help strengthen Georgia's territorial integrity and act as a regional security provider against Russia but the EU has avoided any political action other than talk to back Georgia up.

Georgia's progress in implementing the Action Plan regarding technical and economic issues is significant, compared to other partner countries, but less so in areas where strong political will is required, e.g rule of law, human rights, judicial and legislative reform. Georgia's ENP Progress Report 2011 still lists a number of issues Georgia needs to address. Georgia's „European way“ is winding: the current president Saakashvili has taken steps to tighten its grip on the political opposition and has pushed through a constitutional reform, also the results of recent parliamentary elections still need time before they can be adequately assessed.

Negotiations on the EU-Georgia Association Agreement started in July 2010, with “good progress” specifically in areas of Georgia's interest, such as visa facilitation and trade-related issues. However, in other areas Georgia has appeared reluctant, which can be seen as an example of EaP's inability to induce changes in areas partner countries do not feel comfortable reforming. While the Georgian elites find the EaP profitable economically and politically, certain political reforms are considered too costly without the incentive of an accession perspective. When it comes to the DCFTA, Georgia's interest is considered to be high, especially in light of the August war in 2008 and economic recession, however, the feasibility study conducted in 2007-2008 pointed out that “serious questions remain regarding the willingness and institutional capacity of Georgia”. The current regimes are giving few tariff reductions and advantages for Georgia. Thus, the EU's offer in the current shape might not be as desirable for Georgia as presented.

A critical issues for the Georgian government both domestically and regionally regards its two separatist regions Abkhazia and South Ossetia. The two regions are internationally commonly considered to be Georgia's sovereign territory occupied by Russia, whereas Russia (and a handful of other countries, like Venezuela, Nauru and others) has recognised the Abkhaz and South Ossetian governments as independent. After the war, Georgia's foreign policy focus shifted away from the NATO and towards the EU, with the perception of the EU “as the only alternative for ensuring the security and territorial integrity of the country”. In this context, Georgia has expected the EU to step up on conflict resolution and security issues in the EaP. Aside of providing for “post-war assistance pledge”, the EU has been toothless against Russia in the region, the most striking example being the EU monitoring mission to Georgia, an unarmed police mission, to which Russia still continues to deny access to the two regions. For Georgia, it gave the sign that “the EU is a soft power but (...) not a strong security organization that you can count on”.

*Armenia's* record of democratic development is less encouraging: for years the country has fluctuated between liberalisation and semi-authoritarian power consolidation. Internal situation has been marked by political crisis, election fraud, high corruption rates and opposition protests in 2008 and 2011, with protesters gaining little, if anything at all. Democratic and market reforms recommended by the ENP Action Plan were basically ignored in 2009-2010, with the ENP Progress Reports mentioning “some progress” in political dialogue and reform in 2010 and suggesting „serious effort“ to address issues of human rights, fundamental freedoms and implementation of legislation in 2011. Against this backdrop, it is difficult to understand the EU's decision to initiate negotiations on the Association Agreement with Armenia without the precondition of free and fair elections. This makes the EU's reference to fundamental values seem to Armenia like an empty decoration. One could argue that the EU keeping a dialogue with Armenia would charm Armenia

to stick to the path of democratic development, however, this should also require the EU to keep its actions and words consistent.

Since the AA negotiations, Armenia's interest in the EaP has risen, motivated by trade, investment and aid possibilities (the government) and respect for the rule of law and other democratic values (the civil society). To Armenia's economy, which is small and isolated with no significant energy resources, the idea of a DCFTA with the EU would be deemed attractive, however, the feasibility study has registered „serious doubts“ about the potential benefits of a „simple“ DCFTA for Armenian economy. Thus in order to be attractive, the EU might need to reconsider once more its „new“ offer on free trade, as the current one does not seem to correspond to the possibilities of the partner country.

The lack of sufficient political reform is coupled with constant conflict situation at the border of Nagorno-Karabakh and the closed Turkish-Armenian border. At Nagorno-Karabakh, the situation has deteriorated to an extent that it has been termed war „waiting to happen“ with exchanges of fire on a daily basis and frequent casualties. Although the mandate of the Special Representative for the South Caucasus has been extended until June 2013, locals have expected greater EU's commitment to negotiate a peaceful settlement in the Nagorno-Karabakh conflict along with long-term peace-building and hard security measures.

Due to little economic independence and conflict with Azerbaijan and Turkey, Armenia's foreign policy is tilted towards Russia. Armenia is a member of Collective Security Treaty Organization (CSTO), and, for example, recent military exercises were held in Armenia, unsettling for its two Caucasian neighbours. In addition, Russia's military base is deployed in Armenia until at least 2044. The EU's „civilisational attraction“ does not suffice for Armenia under these geopolitical conditions, considering the EaP's gains and costs.

EU's relations with autocratic *Azerbaijan* belong to a completely different category. Negotiations on the Association Agreement were started in 2010 (again, with no significant preconditions expected on democratic development) and are reported to progress at a „slow pace“, whereas no progress has been made on the DCFTA, as Azerbaijan is not a member of WTO which is a prerequisite for starting negotiations at all. Since 1993, the country has been ruled by autocratic Aliyev's family are holding a tight grip: the society is politically suppressed, especially as a result of mass protests in the spring of 2011, resulting in a heightened number of political prisoners and constrained human rights. The elites have no interest in reforms that may shake their power position. In addition, Azerbaijan is mobilised over the open conflict on its territory in Nagorno-Karabakh.

Azerbaijan represents a significant challenge to the EaP and the EU in general. It has chosen the tactics of balancing between different international actors in the region and taking the maximum benefits of that situation. Located in a strategically important position regionally, Azerbaijan may act both as a hub for potential energy trade between Asia and Europe and as an energy provider (alternative to Russia) for

the EU. As the country receives most of its income from oil revenues (although distributed only to elites), it is economically independent, therefore there is little the EU can offer to attract the elite into introducing meaningful reforms. Azerbaijan is interested in the EU helping to maintain regional security, for example, offering stronger support in the frozen conflict, or in economic benefits, such as visa liberalisation and trade. However, Azerbaijan is not ready to conduct reforms for these distant and (yet) intangible gains.

It is hard to see how the EU and Azerbaijan have even reached this level of interaction as there is almost no interest from Azerbaijani elite in the EaP, and even less so when it comes to introducing any reforms suggested by the EU. In this situation, the EU lacks levers on Azerbaijan because of its financial independence and its importance for the EU as a energy supply provider. The EU's only option seems to be continuous call for „significant further efforts to meet... commitments regarding democracy“ but there can be no dialogue if one party is not interested in participating.

## 2. WHY THE FAILURE?

In analysing why the EaP fails at soft power projection and milieu shaping, a number of problematic points stand out when viewed in light of the record described above. Many of them are rather similar to the criticism made of the ENP.

*Not about membership:* This old criticism is obviously of varying relevance among the EaP countries. Armenia and Azerbaijan have never sought membership; for them the current EaP may be sufficient. Ukraine and Moldova have both expressed strong interest; for them it is clearly inadequate. The ambiguity as to whether the EaP is a permanent settlement or a way-station on the road to membership is not resolved, and that stretches the policy. More importantly, the membership perspective is the EU's biggest soft power asset, and removing it reduces its leverage.

But would the membership perspective really make a difference? Could one have imagined Ukraine having done better on the reform path, or not started backsliding, had the EU been open and forthcoming? Might Belarus have started changing? Experience from other countries shows it is not certain. The case of Bosnia shows that even a country with a clearly expressed perspective finds it difficult to move forward. But certainly it would not make anything worse; it would not mean abandoning the Copenhagen Criteria or slackening the requirements in *acquis* compliance. Experience from far more cases suggests that enlargement did help sharpen political debate and create domestic pressure. Crucially, it made the EU look attractive.

Having the 'big carrot' on offer makes the stick more effective too. By holding out the prospect of membership, the EU can more easily use conditionality to secure positive change in its partner states, i.e. on the milieu goals. This is not unimportant, considering the often significant short-term adaptation costs that states face when

trying to meet EU standards, the positive effects of which will only show over the medium to long term. As Romano Prodi recognised, when speaking of the CEEC candidates of the 1990s, “by holding up the goal of membership we enabled these governments to implement the necessary reforms. Only the prospect sustained the reformers in their efforts to overcome nationalists and other resistance and fears of change and modernisation”. Today, the EU seems to think that the EaP countries can accomplish it all on their own with little else to motivate than EU soft power - except the biggest soft power source has been left out.

*Too focused on governments:* The EaP is primarily structured around EU partnership with the neighbouring countries’ governments. That means that change and commitment must first come from these governments. The EU has insisted on full conditionality in the political sphere with the Western CIS, while being profoundly lax on those same issues with some of the South Caucasus countries. That is not only a notable double standard, but also reduces the potential soft power impact of the EU. The focus on state institutions, elections, courts etc., important as it is, doesn’t do enough to foster alternative elites, whether in politics or in business, that can create pressure on different governments. The EU’s professed policy of strengthening civil society looks rather meek, especially considering that such efforts are not fully supported by the political branches of the EU. It basically ignores the role bottom-up pressure can play in effecting change.

*Too little trade:* It is sometimes forgotten, that although the EU shares a long border with the former Soviet states, it is in fact only the biggest trading partner for Moldova. Other states have closer relations to Russia than to the EU. This makes it difficult for the EU to use economic leverage. It also underlines the extent to which countries will face adaptation costs if seeking to move ahead with DCFTA. ‘Normal’ FTAs might actually be a better option in the short term. They would be less technically complex than DCFTA, thus reducing the upfront amount of *acquis* compliance necessary. And it would give countries more options for diverse economic relations, while still having the potential over time to orient countries towards the EU. The political conditionality also makes it difficult to expand trade relations to begin with. Business elites, once co-opted by the EU, can make powerful allies in the EaP states. To be more effective, the EU ought to treat trade aside from politics, at least until the point when it enjoys some genuine leverage.

*Few tangible incentives:* Visa liberalisation, which is among the top priorities for the partner states, has been under negotiation for so long and the EU’s position so inflexible, that the prospect of actually abolishing such requirements seems extremely distant at best. It is difficult to spot the real upgrade in relations. As important, the funding made available under the EaP is fairly limited, and will be spread very thinly over so many countries. It appears all the stingier when compared to the pre-accession aid given to the CEE candidates in the 1990s. To put the limited funding in perspective, Ukrainian officials point out that the EU has spent less in the country than the amount Ukraine decided to forego when it unilaterally abolished

visa requirements for EU citizens in 2005. The EU's "more for more" approach, which was introduced in 2010, envisaged that the more a partner would engage with the EU, the more fully could the EU respond. It seems, however, that partner countries are still expected to carry out major reforms without having a clear vision how the EU will reward them in return.

*Little help on conflict resolution:* A full four of the six EaP countries have frozen conflicts on their territory, and have all at different times requested greater EU involvement in working towards a solution. The EaP was of course not set up specifically with conflict resolution in mind. But its success is still dependent on movement in those areas, and on the role the EU plays in bringing it about. The European institutions generally recognise this, and speak of the EU supporting efforts to mediate in the frozen conflicts. Yet others hold the keys to their solution, and there has been little movement. In this context EU soft power would seem best bolstered by trying to craft proactive policies in support of conflict resolution, peaceful cooperation, as well as respect for territorial integrity in accordance with international law – all values the EU profess commitment to. But soft power is not a tool for conflict management, and it is hard to see the EaP framework opening many new avenues or bringing any greater energy to the task of resolving the frozen conflicts.

*Slowness:* As noted above, the lack of an end-goal and the limited nature of the EU's offer are major drawbacks of the EaP. The glacial speed at which it moves, on the other hand, calls into question the EU's own sincerity and commitment. Although progress is constantly reported, in regard to both visa liberalisation and DCFTAs it has been painfully slow in coming. That it is the EU insisting on conditionality and on the detailed nature of the relationship gives the sense of stalling. Faster progress and clear, practical achievements would boost the EU's image and soft power in the region, would lessen the political and economic costs to the partners, and would bring greater leverage. In the current situation the EU loses credibility.

*The divided Europe:* The EU is as disunited as always on how to engage with the east. There clearly are different signals sent from different member states, and different expectations in the partner countries. Relations with Russia are one factor, as several EU members are deeply wary of treading on sore toes. In that view, any suggestion of enlarging the EU would risk creating greater insecurity on its eastern border, and should therefore be avoided at all cost. Others are more willing to prioritise the ambitions of the partner states. Possibly the soft power rhetoric is another lowest common denominator; speaking of influence, but without much actual EU commitment, and without antagonising anybody gratuitously. But that is also part of the problem, as it affords another power significant influence over the EU's policy towards its neighbours. For an actor speaking as often of values as the EU does, that cannot be an acceptable way of things. Whether it is actually true or

not is almost beside the point. The damage is in the ambiguity and in the perception that the EaP is somehow an inadequate *ersatz* strategy.

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# CHALLENGES OF THE CROSS-BORDER COOPERATION PROGRAMMES AT THE EASTERN BORDER OF THE EUROPEAN UNION

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**Abstract:** *The Joint Operational Programmes, financed through the European Neighbourhood Partnership Instrument, are the financial tool that put in practice the European Neighbourhood Policy with the potential Eastern candidate countries. The aim of the programmes is generous wishing to create bridges between the partner states for sustaining the communities in the border areas in order to find common solutions to similar problems they face. Through the programmes, the local authorities and the organizations from the border area are encouraged to cooperate for the local economy development, common management of environment issues or emergency situations preparedness and not the last for a good interaction between the border communities. The paper aims to explore what the main challenges are that the applicants, beneficiaries and the institutions involved face and how they affect reaching the aim of the programme.*

**Keywords:** cross-border cooperation, Eastern border, European Union, European Neighbourhood Partnership Instrument, Joint Operational Programme (JOP).

## INTRODUCTION

For the 2007-2013 programming period it is in place the European Neighbourhood Partnership Instrument (ENPI) through which there are financed three programmes on the actual Eastern border of the EU and covering mainly Ukraine and the Republic of Moldova: the Joint Operational Programme Poland-Belarus-Ukraine, the Joint Operational Programme Hungary-Slovakia-Romania-Ukraine and the Joint Operational Programme Romania-Ukraine–Republic of Moldova. In the period 2007-2013 the total funding under the ENPI CBC programme is expected to amount to some 1.118 million Euros, with around 527 million Euros coming from ENPI and the balance from ERDF funds.

The main priorities of the above mentioned programmes are built around economic and social development, environment management and protection, increase of the security and efficiency of the border by proper management and the “People to people” component (CBC Programme Pl-By-Ua, 2008; CBC Programme Hu-Sk-Ro-Ua, 2008; JOP Ro-Ua-Md, 2008). The main applicants for all three programmes, with exceptions depending on the specificity of the participant

countries in the programme, are the public administration – regional and local authorities, non-governmental/ non-profit organizations or other institutions such as universities, chambers of commerce, business non-profit associations or others. One of the most important specificities of those programmes is that the partnership across countries is mandatory and at least one partner from the Member State has to be included in the project. This issue is the engine of the cross border partnership along the Eastern border and it helps for the know-how transfer from the EU to the partner countries as concerns project management.

In case of this ENPI programme, the Joint Managing Authority (JMA) shall bear the overall responsibility for the management and implementation of the programme towards the European Commission, while the beneficiary is responsible to the JMA and is directly accountable to the authority for the operational and financial progress of activities. The legal basis for these programmes implementation consists of Regulation 1638/2006 of the European Parliament and of the Council of 24 October 2006 laying down general provisions establishing a European Neighbourhood and Partnership Instrument, the Commission Regulation no. 951/2007 laying down implementing rules for crossborder cooperation programmes financed under Regulation no. 1638/2006 of the European Parliament and of the Council of 24<sup>th</sup> October 2006 laying down general provisions establishing a European Neighbourhood and Partnership Instrument, usually called Implementing Rules. The contractual procedures used for the implementation of the programmes shall be those applicable to external actions as defined in Articles 162 to 170 of the Council Regulation no. 1605/2002 and Articles 231 to 256 of the Commission Regulation no. 2342/2002. The procedures and related standard documents and contract templates to be used are those included in the Practical Guide to contract procedures for the EC external actions with annexes in force at the time of the launching of the procurement procedures or call for proposals.

## **1. THE EXPERIENCE OF THE JOINT TECHNICAL SECRETARIATS**

Inhere I have made a comparative qualitative research between three JOPs that are situated at the Eastern border of the EU and include Ukraine and/or the Republic of Moldova. The tool used was the interview applied to one of the programme structures, namely the Joint Technical Secretariat, which is the body that links the decisional bodies – Joint Managing Authority and Joint Monitoring Committee, and the beneficiaries.

This section makes a summary of the research findings concerning the good features that actual Joint Operational Programmes have and the lessons learned by the executive bodies involved in the programmes implementation as a link between the Joint Managing Authorities and Joint Monitoring Committees, as decisional and strategic structures, and the beneficiaries, as project implementers and grant users.

The findings are structured by relevant fields and combine the interviews with the Heads of the JTSs from the three JOP from the Eastern border of the EU that includes Ukraine and the Republic of Moldova.

## **2.1. Challenges, solutions and starting points**

### *2.1.1. Programming*

The Practical Guide (PRAG, yearly versions), in the form it is now, it does not fit this kind of programmes and needs improvements. From the legal perspective, the most critical part of this programme is the whole composition of the programmes that 3 or more countries have, the problem being the regulation and the basic act, meaning PRAG that is outdated. The PRAG sets the rules between the EC and the countries, but in the frame of the trilateral or quadrilateral programme, because the legal connection between the partner and the beneficiary was never set. The proposal is that for a next programme not to apply at all the PRAG rules. There is experience from ERDF, IPA that became ETC rules, there is also a base for creating new specific rules for crossborder programmes with partner countries.

Another issue linked to this is the situation of the JMC that has to decide about the selected projects after the recommendation of the Evaluation Committees. In case that the JMC wants to make changes on the recommendation, the approval of the EC is necessary, a fact that creates the situation when the JMC as the highest decisional body cannot decide alone on the matters that are in its area. This aspect should be deleted from the system.

From the point of view of the programming process it is better to concentrate on the people living on the territory and not to have a central guide, because we need to know what the interests of the countries are.

The programmes' objectives are too wide and almost any kind of project can fit in it and, as consequence, if we draw a line at the end of the programme with the purpose of measuring the impact or the results, this cannot be realized. A more specific approach would be more suitable, based on studies about the programme area and the formulation of more targeted objectives as well as, after seven years of programme, the possibility to conclude what needs were covered from the programme, entirely or partially.

As far as concerns the consultation of the local actors, for the actual programme it is possible that it was not systematic, respectively only 2-3 workshops, with low possibility of a clear analysis of needs. The needs analysis should start from the analysis of the development strategies of the communities across the borders and to identify the common points of interest.

The ENPI allows the programmes to choose the type of projects, namely simple, integrated or symmetric, but the simple projects are not relevant anymore in the cross-border context. This is an issue that should be analyzed and it should be

established how much such projects are still necessary. A simple project is easy to manage, being understood the applicants' interest in this kind of projects, but from the point of view of the partnership and cross-border impact it is not significant.

### *2.1.2. Calls for proposals*

The actual frame is good, with project management training session and information sessions at national level delivered by the JTS. The participation of Interact or RCBI in the delivering of these sessions is welcomed due to their horizontal information level, being involved in more programmes and more countries. The BOs have a very limited role due to the implementing rules provisions, having tasks about the organization mainly. The number of events is less important than the quality and consistency of the information delivered.

The positive aspects are referring to a higher clarity about the programme requirements as well as the potential applicants to understand the programme aims and what they have to do at each step in order to implement them. The first call for proposals had evasive and interpretable that generated frustrations and appeals, but the second call tried to fix this, making the guidelines more friendly and concise, with clearer issues. Also, the clarity is an aspect to be considered in a following programme.

The evaluation process was better described in the second call for proposals for some programmes and the applicants knew better the situations of rejecting a project and the appeal procedure was established, making the process more transparent compared with the first call for proposals.

Some provisions of the guidelines are too strict because it turned out that in the end there were many good projects that were rejected because of not complying with the administrative eligibility check. This is a 1-0 option, for example one of the annexes is not submitted.

What is missing in the programme but cannot be solved during a call for proposals are the projects for increasing the capacity of the potential applicants, mainly the ones from the partner countries, about the project management frame (for example the principles, the concept of relevance, the planning of the indicators and the activities, etc.). This type of training should be delivered all along the programme period and not only during the call for proposals.

An application form with a simpler format would be easier to understand and filled in by the applicants. There are sections in the application form about the relevance or coherence with the programme objectives that are very briefly described, the space available for these sections being restrained while for other sections is more generous, even if, in the implementation stage, the details from the sections are not entirely useful. There is need for more space for issues like relevance, crossborder impact, sustainability, internal monitoring and control mechanism and less space for methodology, for example.

### *2.1.3. Assessment of the applications*

The system of restricted call for proposals used in some calls for proposals is one to be considered in a next programme, namely the initial submission of a concept note, the selection and a provisionally list of applicants, the preparation of a full application and the final selection of projects. The advantages of this system are about the shortening of time needed for applicants to prepare a pre-proposal, in the case of big projects the request for submission of the full application being expensive and with a high volume of documents. In the case of the restricted call, these costs are occurring only after the applicant is on a provisional short list. Another advantage is the decrease of the time needed for evaluation, especially in the case of a significant high number of applications.

A good aspect is that the programme allows that the score awarded in the assessment of the concept note for the relevance issue is considered in the assessment of the full application with no changes.

Another positive aspect is that there is an appeal procedure that is allowed in any evaluation step and due to its specificity it eases a prompt answer from the programme management structures. The clarity of the guidelines provisions in this matter lead to a lower number of appeals compared with the previous evaluation process.

It is advisable to use the same evaluation system as in this programme, namely an evaluation committee for each priority, committees with a lower number of evaluators, one representative per country, this formula having good results and an easier consensus building process. There are voices among the regional actors that propose that each country should assess its own applications but this approach it is not a desired one considering the projects specificity, with partnership in the other countries. Moreover, it is difficult to keep the crossborder character in the situation that each country will receive a part of the budget and will assess separately the own applications. It is possible that following the assessment to have a selection of relevant projects for the regions from that country but not necessarily relevant for the partner from the other side of the border. Also there is the issue of conflict of interests in the situation of national assessment, considering that it should be the certitude that the ones involved in the evaluation process have no personal interest on the proposed projects.

Another aspect that should be transferred further is the award of incentives for the participation of the partner countries, for example to encourage the trilateral partnerships or the allocation of the budget in the partner countries from a certain percentage, aiming a higher involvement in the programme of the partner countries.

It is good to catch up the setting up of more clear criteria for measuring the crossborder partnership for ensuring its content and the obligation of respecting at least two out of the four criteria: joint programming, joint implementing, joint

financing and joint staffing. This improvement risen in the second call for proposals due to the fact that in the first call for proposals there were many projects with the budget managed by only one partner, the other partner being just formally involved, without a significant contribution.

When about the quality assessment there are assessors, both internal and external JTS that were approved within the open call for assessors and there are opinions about the work of external assessors as not being satisfactory, especially about the quality or the comments they put in the evaluation grids. Even if training was provided for them, still the work conducted by the external assessors was not good enough. Often these comments were not in line with the project or with the assessment, so some problems in this case were faced. There is a good point from the transparency point of view to involve the JTS in the quality assessment of proposals, now the proposals being evaluated by independent assessors selected by open call. It is difficult to check the harmonization of the comments of the assessors with the points given having in mind the differences in cultures and fields.

#### *2.1.4. Implementation*

There are the procurements problem and the rule of origin problem in Poland because if we consider strictly the provisions in relation to the procurement rules we cannot impose in the Polish tendering documentation that the goods must be bought only from the specified area. The national legislation does not have provisions about it and there are problems here as well.

In the implementation many other problems occurred in terms of procurement in the case of Ukraine and Belarus where there is Annex IV that says “the best international rules” meaning PRAG. The NGOs in Ukraine can use PRAG without any problems, but the public entities are obliged to apply their national procurement rules. There is the matrix elaborated by Interact that compares national rules with PRAG, still it is an advisory tool for beneficiaries that can be taken into consideration, there are not provisions that the matrix must be followed.

There are more rules regarding the implementation – the description of the management and control structure that is coming from the ETC rules and involves national control structures in the three member states enforced by national decrees, PRAG rules, horizontal regulations and the EC regulations. The harmonization of those is impossible regarding the procurements or other implementation issues and for example the EC never stated how the PRAG can be applied by the bodies that are not government related. There is a matrix realized by Interact regarding the procurement in the partner countries and it was the desire of approval of it but by now it is not an official document. The problem is that between the national legislation in the partner countries and the PRAG there are some gaps that should be somehow solved, but there is no answer to it by now. Even if the Interact matrix is not mandatory, it is useful and guiding for the partner countries.

The specificity of the quadrilateral programmes is that there are three member states involved and the national rules applied are different concerning the checking of expenditures but, on the other side, there is the JTS that has to control everything. Moreover, the JTS takes the final decision about the eligibility of expenditures, but the opinion is formed based on reports of the national controllers or independent auditors for the partner country, without having the supporting documents as invoices or other proofs. Also, the decision of the JTS concerning the eligibility of the expenditures incurred implies mainly the acceptance of the findings of the national controllers or auditors and in case of doubts, to ask clarification or supplementary documents, aspect that makes the decision process longer. The final level of control is the JTS and that is why the ‘four eyes principle’ is applied very carefully and the structure of JTS is using the operational part and the financial part of verification leading to a kind of ‘ten eye principle’. Overall this means a huge amount of work and responsibility and, if it is an optimum structure, this should be based on an increased responsibility on the partner countries that are signing a memorandum with the JMA anyway.

One of the biggest problems of the programme is the LSPs, not the projects themselves, but the direct award procedure which is good for the countries and the JMA, but from the management point of view, it is a nightmare. It is critical because of the value of these projects, almost a third from the whole programme, and because of the technical complex aspects of these projects, and in case there are late contracted ones, there are risks concerning the financial and technical aspects. There is a lot of effort put in the promotion of these projects but, because public institutions are cooperating with big hierarchy from different countries, there are delays because there are many steps from the first meeting till the setup of the project and both kinds of people are involved, the ones who make the decisions and the ones who know the technical aspects and details for a better shape of the project and not all the time are they available at the same time from all the partner countries.

The implementation step is not described at the programme level, only general guiding lines being presented and behind these a big and meticulous effort is necessary for establishing the details, mainly the JTS sustaining this effort. The implementation rules for the project were set up long after the programme launch and there will be a good aspect to be established an implementation strategy right from the beginning of programming the JOP. It is good for the applicants to also know all these details for a proper preparation of the applications.

An issue that should be analyzed and determined carefully is the share of responsibilities among the programme structures to avoid the overlapping that would mean doubled activities and lack of efficiency. An example is the one of the submitted beneficiaries’ reports that are checked by three levels (FLC, JTS, JMA).

## 2.2. Institutional systems of Joint Operational Programmes

Compared with the beginning of the programme, things are different. Many decisions are taken by written procedure, both on the JMC level and even at the Evaluation Committee also the written procedures definitely improved the process of decision-making. The branch offices (BO) are good, in the partner countries. In order to communicate with the National Authorities, the JTS is contacting directly or through JMA, it depends on the issue. The work of branch offices is appreciated especially when there are the JMC meetings, in all the logistics, invitations, etc. They are set up just for the information and communication purposes and the JOP has provisions about how they can help with the evaluation of the projects.

At the actual moment in the JOP there are many responsibilities defined for the JMA and several for the JTS and most of the tasks belonging to JMA are transferred to the JTS. From a point of view it is a good thing as long as the people working in the JTS are qualified and highly professional. But on the other hand people working in other structures of the programme are civil servants and sometimes they don't have a very high level of expertise. A proposal would be to have in all the programme structures people with similar expertise in order to help understand each other in a common language and field. A good aspect is that the collaboration between the JTS and the NAs is good mainly due to the fact that inside JTS there are working people coming from all the programme countries; also, the beneficiaries and the national structures of the programme can talk with the professional people from JTS in their own language and the communication is better. Even if the language of the programme is English, it is not often in the real life that a person involved in a project, coming from a smaller village, can be experienced in legal terms in English.

JMC has a strategic role in the programme, but the direct intervention in the programme should be clear about the selection and approval of the projects list recommended for grant, decisions related to the financial allocations, decisions related to the conditions of the call for proposals, meaning exclusively aspects of strategic level of decision. The main responsibility about the programme implementation should be designated to JMA and the NAs should give a higher support to the JMA in what supposes the implementation of the programme, namely providing information concerning some specific national issues, for example the level of harmonization of the national legislation with the EU legislation or the conditions of issuing a building permit in the partner countries. There is a need for clearer distribution of responsibilities and tasks between the JMA as superior level and JTS as a level near to the beneficiaries, JTS being mostly an executive body and in some situations is necessary to be more involved in the management of the programme.

### 2.3. The decisional process of the programmes

In aspects concerning the institutional and decisional-making process, there is the aim of the Commission of having the so called ‘shared management’ that should be implemented. During the evaluation of the projects there were many problems in relation with the eligibility of the applicants, in some cases not being clear the applicant eligibility because in the guidelines the conditions for eligibility were not clear and in this case the role of the National Authorities (NA) should be more important. It should be put in the provisions of the programme that for example the NAs should be responsible for some duties. As concerns communication between the BO and JTS and JMA and JMC there are not issues for debate.

To have consensus for three or four countries it is not always an easy way, but considering that all the countries contribute financially to the programme, the possibility of majority vote is not an option because this would mean that one of the opinions would not be taken into consideration. Also, the consensus principle should remain as a modality for taking decisions.

In Hungary’s case there is a problem because there are the institutions and the same people who are representing both the JMA and the national point of view, and from a professional point of view, the JMA should represent the four countries altogether to guide or direct the countries equally and the NA should represent the national interest. Therefore, it is difficult to be at the same time JMA and NA and to have different interests and playing one of the parts would mean to break the mandate as the other part. In this case for sure it should be a change.

At the project level there is a difference in flexibility about the decision among the programme countries. For example, in Ukraine, the approval of a budget has many filters superior to the institution that applied, issue that generates delays that can be months long in the implementation of the project. Similar aspects can be found at the programme management level, the NAs consulting the regions before issuing a decision about a proposal that concerns the programme. On the other side, as far as the management programme issue, in Romania’s case, it is observed that the regional actors are not involving actively and constructively, their direct interest being more linked to punctual projects and less to contribute to the improvement of the programme management.

### 2.4. The good partnership features

The partnership is a very crucial thing in the evaluation; there are special sections in the evaluation grid related to the partnership. There is a correlation between the partnership and the cross border effect. All the criteria taken from the ETC programme – joint preparation, joint implementation, joint staff, should be taken into consideration, even the joint financing. For example, if the partners co-

finance their own share, they are more related to the project and they have commitments. The partnership structure should start from the beginning, from the proposal preparation that should be made jointly and some meetings should be carried out before the submission of the proposal and we should definitely have joint implementation. It happened that the applicant participated together with the partner in the trainings. There are strong partnerships established because the CBC cooperation started earlier, for example the ones started in previous PHARE CBC programmes, still there are many institutions that have the idea of the projects. but they don't have any idea with whom they can implement the project.

From the point of view of long term partnership, there are good partnerships that can create new projects and new ideas. But this is not general, there are also long term partnerships but, because of the crises or some changes in legislation or from other factors, it could not continue and run projects.

If the people inside the structures are cooperating, then there is a perfect partnership and cooperation but, on the other side, at official level, there are different opinions between institutions and the message sent is confusing.

The partnerships with a history or tradition behind are usually the most serious ones. A good partnership firstly means a project jointly developed, that has joint ownership of all the partners. The ownership issue is not found in the projects implemented following the first call for proposal, but it will be in the case of projects selected following the second call for proposals. It also means that all the partners are involved in the project activities, including in budget sharing, when it increases the motivation of sustaining the implementation and good finalization of the project. Summing up, a good partnership is the one that can have a happy end of the project, without undesired events along the implementation. There are unhappy examples of projects when, after the project was submitted and accepted to be financed, one of the partners decides to redraw or makes difficulties because he does not have direct financial gratification in the project. This kind of situation proves the fact that the named partnership was constituted exclusively for getting the grant. A good partnership supposes that the partners are together from the beginning till the end, effectively involved, and it means communication, mutual support and co-financing. The same remarks are valid for the programme level as a replica of what it happens in a project.

## CONCLUSIONS

Considering the findings described above, there is a good start for improvement of the Joint Operational Programmes at the Eastern border of the EU. The lessons learned and the solution proposed are possible to be implemented if there are considered by the structures that will prepare the programming of the next period 2012-2020.

The general programme structure should be retained, JMC, JMA, JTS, BOs and NAs. The programme should include more duties carried out by the NAs to be more involved. The trilateral or quadrilateral cooperation formula is good as long as there are strong partnerships between the countries.

The direct award procedure for the LSPs should not be allowed as it is now without having other option. The opportunity of open call or direct award should be analyzed separately.

From the structural point of view of a future programme, there are not any problems and there are not big changes that should be considered, mainly speaking of the frame as JOP document. But from the point of view of details concerning the implementation and the quality and stability of people in the programme structures and at the EC level, there should be some more attentive approaches.

As elements constituting lessons learned by now there are to be remembered keywords as flexibility, transparency, the project as the core of the programme instead of easy life for programme structures, focus regarding the programme action and intervention, clarity in the requirements for the potential applicants, specificity in provisions and avoidance of exaggerations.

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## THE EU-UKRAINE RELATION DYNAMICS

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**Abstract:** *One of the most important states when talking about the European Neighbourhood Policy is Ukraine, the first country of the ex-soviet block to sign an Agreement with the European Union in 1991, shortly after the USSR collapse. The basis of the EU-Ukraine relations is considered to be the Partnership and Cooperation Agreement ratified by the Parliament towards the end of the '90s. Besides this important document, the two parties have reached several other agreements which draw the guidelines of their cooperation. The European Neighbourhood Policy recognizes the importance of Ukraine as being the leading state in the Eastern Neighbourhood, as it can be also emphasized by the Eastern Partnership. This paper analyzes the relational dynamics between the European Union and Ukraine stressing out political aspects.*

**Keywords:** European Neighbourhood Policy, Eastern Partnership, EU policy-making, Association Agreement.

### INTRODUCTION

The legal base of the EU-Ukraine relations is the Partnership and Cooperation Agreement (PCA) signed in 1994 and ratified four years later due to the delicate political equilibrium during Kuchma's first term in office. This event was perceived as an important step for the young state to step out of isolation and as an important feature of the external policy.

The PCA stipulated some important aspects to which Ukraine should pay closer attention such as: the importance of the rule of law, respect for the human rights, granting civil rights, freedom of the press and media, improving public government, etc. Still, this Agreement provided a very thin framework for political discussions. It stated that there should be annual meeting at several political levels in order to discuss the progress made and/or the difficulties encountered in achieving the goals set out in the PCA.

In 2004, after the enlargement from May, the EU introduced another policy in order to deal with its neighbours - the European Neighbourhood Policy (ENP). Brussels launched the ENP with the core objective of avoiding the emergence of a new dividing line between the member states and its neighbours. It has to be stated that we don't have to this point a definition of the ENP, but every author agrees that it was created to deal with the relations between the EU and the neighbouring states.

Among the ENPs objectives we can identify: strengthening the prosperity, stability and security, promoting democracy, rule of law and respect of human rights. In 2010-2011 the EU revised the ENP and included another set of objectives such as increased mobility, deeper economic integration and, the most important, it promoted deep and sustainable democracy, accompanied by inclusive economic development. The sustainable democracy refers to free and fair elections, freedom of expression, of assembly and association, judicial independence, fight against corruption and democratic control over the armed forces. Also, the role of civil society was stressed once more.

After the Orange Revolution in 2005 the European Union wanted to take the relations with Ukraine to another level, thus creating the EU-Ukraine first Action Plan. This document was signed for a 3 years period and stipulated a series of reforms that Kyiv should undertake in order to be considered a potential candidate for the EU.

Although both parties had high hopes in 2005, the Action Plan proved to be a little too demanding for the Ukrainian state and the country reports from 2005 till 2008 showed that little progress was made in the key areas underlined in the document. Ukraine failed to conduct the reforms at the level required and the money it received through the European plan were too little.

In the following years several summits followed, which discussed the country reports and the progress made by Ukraine in each section of the Action Plan, and analyzed the key-actions which were to be implemented in order to help Ukraine to reach the goals desired. It has to be stated that, from one Summit to another, the progress was too slow for the EU and, although in 2010 an Association Agreement was designed in order to deepen the cooperation between the two parties, it is still not signed even to this date.

From the EU's point of view Ukraine had evolved much since the PCA times, it made great progress in order to take a democratic path, but there is still much work to do in order to be considered a potential candidate. Yanukovich presidency changed the perception of Ukraine in the European zone, not only because of the political scandals before and after his election, but also because of his pro-Russia attitude.

At the latest Summit from February 2013 he was invited to discuss the progress of reforms, what actions need to be taken further and the possibility of meeting the EU's requirements in order to be ready to sign the Association Agreement (AA) later this year.

## UKRAINE UNDER KUCHMA, YUSHCHENKO AND YANUKOVYCH

Ukraine is the most important state in the Eastern Neighbourhood for the European Union. The relations between these two parties started in the early 1990s, shortly after the collapse of the USSR.

The world had taken a different turn after 1991 and the EU had to be aware in a different way of its Eastern neighbours. The ex-soviet countries, which were now so close and yet so far on a democratic path, were a priority for the EU, especially due to their vulnerability and their dependency on Russia at so many levels. The first attempts to define Ukraine's regime type were undertaken during Kuchma's first term in office. It has to be stated that Ukraine entered a post-Soviet era through a negotiated pact between the national communists and the national democrats. During that time, centrists were too weak to transform Ukraine into an authoritarian system. Members of the pro-presidential parliamentary majority were joined together by the desire to resolve certain economic and financial aspects in their favor such as transferring land titles or privatizing factories. Regarding this last aspect, it has to be said that the economic reform was delayed until 1994. It has to be stated though that the centrists were disunited, unstructured and they were taking their first steps in becoming oligarchs by accumulating capital.

President Leonid Kuchma came into office in 1994, on a political stage tormented by tensions between the elites who were failing to create a unified party strong enough to seize the power. During his two terms in office, he acted as a neutral umpire over the 3 competing oligarchic clans who disliked each other as much as they disliked opposition (Lutz, 2001, pp.18-27). The struggle for power not only in the political sphere, but especially in the economics field was a characteristic of the Kuchma regime. The political scandals, the accusations of corruption, the slow pace of the reform on so many levels, made the western researchers to give little credit to President Kuchma and his regime.

Attempts of reforming the country were made in the second half of the 1990s, but the promoters of those reforms were either forced to leave the country seeking asylum in the USA or were taken care of. The same happened at the beginning of 2000 when Yushchenko was prime minister. He was removed for having different views and different opinions from the Kyiv leadership (Aslund, 2006, p. 38)

For the most of the Kuchma mandate, Ukraine was perceived as a hybrid state with a competitive authoritarian regime. Such a state is somehow forced to hold free elections and not abuse human rights on a massive scale. Also, it must maintain good relations with the West and thus avoid isolation (Ibid, p.15). Regardless of what was happening on the internal political stage, Ukraine used this strategy especially to obtain concessions from Russia who recognized their common border when it sensed that Ukraine is inclining to get closer to NATO. It is a known fact that the relationship between the USA and Ukraine was better when Russia's relations with the USA had declined, and the other way around.

Ukraine became isolated and the matters got worse when Kuchma was accused of authorizing the scale of Kolchuga radars in Iraq in July 2000. (Lutz, 2001, p.48). This isolation was reflected in the behavior of the leaders gathered in Prague two years later for the 2002 NATO summit.

The last two years that followed were characterized by scandals on both national and international level. The year 2003 was marked by tensions that culminated in political pressure from Kuchma over People`s Democratic Party, but also witnessed the illegal arms traffic scandal involving a secretary of the National Security and Defence Council. As for 2004 by far the most important event was the Orange Revolution.

From the perspective of EU relations, Kuchma regime did not succeed much, except for the Partnership and Cooperation Agreement.

After the end of the Kuchma era, it was now time for a different approach on politics and external relations. Kuchma`s presidency was perceived as being pro-Russian and now Yushchenko was firmly advising on a pro-Western approach. (Aslund, 2006, pp. 80-83)

In late 2004 after several rounds of elections and massive protests known as the Orange Revolution, Yushchenko won the presidential elections. At the beginning of his term there were high hopes for change not only from an internal point of view, but it was also something expected from the West world (Aslund, 2006, pp. 98-104)

Still, his years as president were marked by several scandals of corruption, accusations from the both sides, and discrepancies between his views and his Prime Minister`s. Despite all these, from the outside, Yushchenko was perceived as a ruler who would change Ukraine`s image on the international arena. During his presidency, despite all scandals and tensions with Russia, the relations with the EU had reached another level. In 2005 the first Action Plan was signed for a 3 years period as part of the newly launched European Neighbourhood Policy. This Action Plan was in line with the PCA, but urged for some serious reforms in key areas such as civil and human rights, rule of law, enhancing democracy, civil society or freedom of Media. Another important achievement was the World Trade Organization (WTO) membership in 2008 and the free market economy status. This was a big step for Ukraine who sought a deeper integration with the EU and more access to the European market. Thus, the discussions for a Deep and Comprehensive Free Trade Area followed and Ukraine was asked to undertake a different series of reforms which were now to be compliant not only with the EU standards, but also with those of the WTO.

In 2009 the Eastern Partnership (EaP) was launched in order to strengthen the relations between the EU and its eastern neighbours. In this new framework, Brussels wanted to improve the political and economic trade relations with the ex-soviet countries which are now at the EU`s borderlines.

Despite all these, the years after the Orange Revolution proved to be a disappointment to the Ukrainians and to some extent to the international actors. In terms of external policy, Ukraine failed to become a member of NATO and the EU, and the relations with Russia reached their climax twice- in 2006 and 2009- with the two gas supply cuts.

Due to these developments, it was somehow expected that in 2010 the new president Yanukovich should go for a different approach towards the East and the West. He adopted a balanced policy towards both sides trying to gain benefits from both Russia and the EU, but this change was not perceived as being a benefic one from Europe's point of view. The external actions of Yanukovich showed that this new president was inclined into improving the relations with Russia as the April 2010 agreement shows. According to this agreement the Ukrainian president agreed to an extension on the lease for the stationing of the Russian Black Sea Fleet in Odessa in exchange for a renegotiation of unbeneficial gas contracts. (Agbodejobi, 2012, pp 16-22)

Under Yanukovich there was no great progress registered regarding the relations between the EU and Ukraine as the negotiations for a Deep and Comprehensive Free Trade Area are still on the discussion table, as well as the Association Agreement. Still, regarding mobility there is to some extent a notable change of waves since the EU proposed an Action Plan for Visa Liberalization, a document that will ensure free movement between the two parties. We have to note that Ukraine will have to make a lot of effort into reforming if it wants this Plan to fully come into action, but as we have witnessed in the last years Kyiv is not that willing to reform and to comply with EU's demands which makes it difficult for any progress.

## **1. THE EU-UKRAINE SUMMIT**

In February 2013 in Brussels the latest EU-Ukraine Summit took place where important issues such as political association, economic integration, mobility and regional and interregional aspects were discussed. This Summit is believed to be an important piece of the puzzle that will hopefully conduct to signing the Association Agreement, a document launched in 2012 which will replace the base of cooperation between the two parties.

The Association Agreement includes establishing a Deep and Comprehensive Free Trade Area and focuses on supporting the core reforms, economic and political governance, and cooperation across various sectors. This Agreement could be signed later on this year if Ukraine makes notable progress in three main areas that are very important not only for the EU, but also for the international community. (Schumlyo-Tapiola, 2013) So, first of all we are referring to compliance of the 2012 Parliamentary elections with the international standards, second is the progress in addressing the issue of selective justice and preventing its recurrence and third we are talking about the implementation of reforms agreed by both parties in the Association Agreement. Unless the EU sees tangible progress in those areas there will be no signing of the AA.

Given the current political situation in Ukraine in terms of both internal and external, this latest Summit is considered to be a success just because it took place.

Given the fact that the European Union is willing to sit and negotiate with a pro-Russian Ukraine there is something that the elite from Kyiv should be thankful for. Still, they have to be conscious that the real progress in the EU-Ukraine relations will come only if and when Ukraine meets the conditions stipulated in the latest documents agreed by both parties.

Ukraine did not gain much from this Summit, because most of the offers made by the EU were not new. The focus was on the three sets of issues which included economic integration, energy and mobility. Everything that EU offered came with conditions. The macro-financial assistance was promised if Ukraine succeeds in reforming its economic policies and at the same time takes loan from the International Monetary Fund in order to be able to repay its debt. Another important offer was that referring to the modernization of the gas transit systems, but this is not something new as it has been offered before. (and rejected by the Kyiv administration).

Whether Ukraine is ready and willing to reform and thus benefit from the EU's assistance it is still unclear. The only single point that has brought some benefit to Ukraine after this Summit is referring to mobility and the visa-facilitation progress for the Ukrainian citizens.

It must be stated that this Summit did not speed up the signing of the Association Agreement, because the EU's three conditions listed above must be all met (because they are all equally important) in order for this Agreement to be signed. In this respect we notice the resolution adopted by the Ukrainian Parliament in favor of the AA and its conditions, as well as the Government's plan to implement a series of measures in order to help putting into actions some of the EU's requirements. Still, this last plan does not cover resolving selective justice cases and reforming electoral legislation, two of the most important reforms for the European Union. Even if Ukraine meets the other conditions, without meeting them all there will be no signing of the AA.

If the Agreement should be signed in 2013 it depends only on Kyiv and the progress made on reforming, and no approaching towards Russia could in any scenario speed up the process. None of the EU Member States will waste political capital on Ukraine unless it proves its adherence to the European values.

## CONCLUSIONS

The EU should now be conscience that its policies and instruments used towards Ukraine until now have had little impact on this country, for it is lately moving into a zone of little response towards the West. And still, despite all signs, the EU continues on this path.

In the first decade of its independence Ukraine was a country invisible to the European Union and they conducted relations based on a vague Partnership and

Cooperation Agreement signed in 1998. Furthermore, none of the EU member states at that time saw Ukraine as a priority because it was perceived as an entity too far from Europe, difficult to understand and still under the influence of Russia. We have to bear in mind that, shortly after the Cold War, the former Soviet states were viewed as being highly vulnerable, unpredictable, non-compliant with the EU's values and under Moscow's sphere of influence.

For Ukraine though, things started to change in 2004 after the enlargement, the launching of the ENP and the Orange Revolution. The pro-West government led by Yushchenko brought a different approach from the EU towards Ukraine and thus the country was given access to the internal market after a series of reforms. Different programs were conducted through the ENP and later the EaP and the cooperation between the two parties was extended to other sectors.

The high hopes from 2004 were almost ruined with the Yanukovich presidency starting in 2010. With a different approach from his predecessor, the new president through his government of the country and external policy actions proved that Ukraine was not yet ready to reform and put into practice all that was required from the EU and despite all the little progress made from 2010, it put on hold the signing of the Association Agreement. If Ukraine does not meet all the conditions laid out by Brussels, it is very possible that the EU's attention should concentrate on a state which is more willing to reform, comply and fully align to European values.

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# THE EASTERN EUROPEAN NEIGHBOURHOOD – A “BRIDGE” BETWEEN RUSSIA AND THE EUROPEAN UNION

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**Abstract:** *The Eastern dimension of the European Neighbourhood consists of a number of economically underdeveloped and politically unstable countries, most of them being internally divided, with one side „looking” towards East and the other towards West. This paper aims to analyse the evolution, challenges and perspectives of the European Neighbourhood Policy (ENP) in the East, specifically to analyse the relations of the six buffer zone countries with the EU and Russia, because an accurate assessment of the ENP’s efficiency and effectiveness within this region should not exclude the Russian factor; So far, the neighbours’ perception of the European Neighbourhood Policy or the Eastern Partnership, their willingness to cooperate and implement reforms and ultimately their overall progress vary according to the ties they have with Russia. Nevertheless, the stability of these countries lying between the enlarged EU and Russia should concern both sides and provide an opportunity for closer cooperation, not the fuel of dangerous races for spheres of influence; Therefore, Russia needs to give up its zero-sum thinking and realise that the development of the buffer zone countries might turn beneficial for Russia as well and the EU needs to better communicate its aims and desire to cooperate with Russia.*

**Keywords:** *neighbourhood, partnership, integration, European Union, Russia.*

## INTRODUCTION

The buffer region between Russia and the European Union consists of a number of states which are economically and politically challenged and whose stability is vital for the future of the entire European continent. Within this context, the current paper aims to analyse through a multidisciplinary perspective, the current perceptions and trends of this region, as well as the role and involvement of the two main geopolitical actors that surround them, respectively Russia and the EU, in shaping the current and future political and economic environment of these countries.

The first section of this paper shall present the general aspects of the eastern neighbourhood, as well as a general outline of the relations that this region develops with the European Union and Russia. Using a critical approach, this section shall mainly focus on the inconsistencies and challenges that the EU met in managing its

Eastern neighbourhood, as well as on the valuable lesson it learnt in implementing its ENP.

The second section will further address political and geostrategic matters which are of vital importance in order to grasp the realities around the European Eastern Neighbourhood. First, in order to understand the geopolitical and strategic relations developed within this region, it is necessary to define both Russia and the European Union in terms of power, as well as their perceptions of each other. The buffer zone has a strategic importance for both EU and Russia, so that this section will also outline the main approaches of both powers towards their common neighbouring area.

## **1. THE EASTERN EUROPEAN NEIGHBOURHOOD – GENERAL OUTLINES**

### **1.1. What went wrong in the Eastern Neighbourhood?**

Overall, after the latest enlargement wave (2007), six former socialist republics, namely: Moldova, Ukraine, Belarus, Georgia, Armenia and Azerbaijan became the newest neighbours of the European Union. The European Neighbourhood Policy was conceived in order to avoid the emergence of dividing lines between the enlarged EU and its neighbourhood, by offering its neighbours special relations of closer political and economic cooperation. (Simionov, 2013, p.3)

Over the last decade, the European discourse around its Eastern neighbourhood states has been centred on concepts of Europeanization, integration and reform since it stays within the EU's most important interests to have stable and prosper countries at its borders. Despite the union's efforts to assist these countries in developing their economic and political environments, the outcome of the ENP has been rather disappointing so far, especially in the sphere of democracy and the rule of law. There are a variety of reasons for that, and further on this paper will focus on exposing the main factors which hampered the economic and democratic transformation within this region.

First of all, the new neighbours can more easily dodge EU conditionality and related reforms. Although the ENP is based on the enlargement tools and conditionality, it did not provide its benefits. Therefore, the lack of a membership perspective makes this policy opaque, since it is not transparent how a policy could otherwise incentivise the neighbours. (Kelley, 2006, p.49)

More scholars argue that the policy is asymmetrical in its ownership and objectives, and deficient in mechanisms for committing partners to reform. (Korosteleva, 2012, p.30) Moreover, the constrains of EU funding in its neighbourhood, due to the EU economic crisis, add on to the partner countries' disappointment.

Despite the several inconsistencies, which have been widely analysed in literature (the lack of incentives, limited resources, EU members' divergent interests,

etc.), the slow progress within the Eastern dimension of the ENP is also due to external factors, such as the EU debt crisis or the revolutions in the Southern flank of the ENP which shifted EU's attention away from its eastern neighbours.

The economic crisis deeply affected the world's economy and the Eastern neighbourhood is no exception. Within this context, it is very difficult to assess the impact that the EU's policy had on this region. Nevertheless, there has been an overall certain progress in the economic sphere of the Eastern neighbourhood, namely when it comes to development and growth within the areas of trade, FDI flows or real GDP growth. (Sabbati, 2013, p.3) At the same time, regarding the democratic environment within this region, the evolution is quite backwards (except for Moldova and Georgia). (Sabbati, 2013, p.4) Most of the regimes have consolidated and centralised their power and the EU's policy in the region has not achieved its expected ambitious objectives since the support for democratic development and good governance represents a priority.

The general conclusion that can be drawn from the impact that the EU had on its neighbours is that the pace of progress is determined by the extent to which partners are willing to implement the necessary reforms; not coincidentally, many achievements have been met in the economic sphere, particularly in the field of commerce, and almost none in the areas of governance and democracy.

## **1.2. Lessons learnt from the Eastern Neighbourhood**

Even if the impact of the ENP in the areas of democracy and governance is somewhat marginal, the EU's involvement in the buffer region has provided the union with valuable lessons for future incentives. First of all, the EU has a better understanding of its neighbours and it can better grasp the complexity of the political and economic context in which they co-exist.

The first main lesson that the union learnt from its Eastern neighbourhood is that EU's capacity to foster democratic reforms has been largely dependent on the political will of the ruling elites in the partner countries, whose main imperative is to stay in power – which consequently undermines the democratic political process. (Fischer, 2011, p.2) The means used by these regimes – which have grown more authoritarian recently, except for Moldova – is by balancing their politics between Russia and the European Union, and promoting a “bridge” policy between West and East. However, such a strategy can easily fail because countries like Moldova or Ukraine do not have the size and resources to play for a long time “sovereignty games”. (Popescu, Wilson, 2010, 4-7)

Secondly, the most important step that EU took through its Eastern Partnership initiative (EaP) is paying increasing attention to civil society in the partner countries – a central pillar for the promotion of democracy -. Since 2007, the EU has enhanced its direct support to civil society organisations in the Eastern neighbourhood and in democracy promotion and modestly improved the means of its fundings.

Nevertheless, despite the efforts of the Union, the civil society in the partner countries remains relatively weak. A major shortcoming of EU aid to civil society remains the limited resources, as well as the means of provision. (Shapovalova, Youngs, 2012, p.3)

The third lesson learnt within ENP implementation is the “more for more” concept which in general implies that the EU should give more political and financial support to those neighbourhood countries that implement more reforms and are more democratic. (Popescu, 2011, p.45) This concept mainly proposes to assist neighbours solely according to their performance which will enhance a better differentiation between the union’s neighbours.

The fourth and most valuable lesson which EU should draw from its EaP experience is that in specific areas, -especially in those related to inter-ethnic conflict resolution-, the union cannot succeed on its own. In other words, the EU should take into considerations in its attempt to democratise this region the Russian factor.

Without a doubt, the most sensitive and problematic area in the Eastern Neighbourhood regards the conflict resolution. It is quite clear that EU is not able to deal with conflict resolution at its Eastern borders, where there are several long-simmering and potentially destabilising, and where the union’s engagement has been sporadic at best so far. (Huff, 2011, p.5) This region is a hot spot of frozen conflicts which, as the Russian-Georgian war showed, could outbreak at any given time.

A joint EU-Russia mission in Abkhazia, South Ossetia, Transnistria or Nagorno-Karabakh could thus achieve several beneficial outcomes, even beyond settlement of the conflicts themselves: it could help secure the EU’s legitimacy as a security actor in the Eastern neighbourhood, as well as to establish a basis for future EU-Russia cooperation, both within the Eastern region and elsewhere. (Huff, 2011, 31)

Nevertheless, the Russian factor is not only to be taken into consideration when it comes to conflict resolution. Russia is not an independent actor in the region and its involvement affects more or less the willingness of the EaP countries to commit to the EU. Therefore, unlike the "candidate neighbours" in Central and Eastern Balkans, the EU's eastern neighbours have two other alternatives to EU membership: to accept Russia's sphere of influence or to attempt to balance between East and West, keeping semi-democratic regimes (or semi-authoritarian) and not adhere to any regional power centres. (Popescu, 2010, 17).

The eastern neighbours’ perception and attitude towards the European Union and specifically towards its policy in the region differ, according to ties and relationships they have with Russia. Therefore, Moldova, Georgia and Ukraine - the three countries which had many frictions with Russia over the last decade - perceived their inclusion in the European agenda as a very significant and welcomed initiative. For these three republics, the West -namely the European Union- is a symbol of prosperity, freedom and material wealth. (Simionov, 2013, p.2) Armenia and Belarus develop very close ties with Russia (Armenia relies on Russia for its military support

and Belarus is widely perceived as a Russian satellite) and, therefore, are only interested in the economic dimension of the ENP, being less interested in adopting European norms and values, as well as integrating into EU structures. Azerbaijan is the only country which bases its relations with both Russia and the EU on economic and investment dimensions. The welfare and natural resources of this country make it less susceptible to let any external actor interfere in its internal affairs.

### **1.3. General overview of the Eastern neighbours**

Overall, the six eastern neighbouring countries have different views on what kind of ties and levels of cooperation they should develop with the European Union. Further on, this paper shall pay specific attention to each of the six neighbouring countries, individually, and shall briefly analyse their perception of the EU versus their relation to Russia.

#### *1.3.1. Ukraine*

Since the Orange Revolution in 2004, Ukraine's strategic objectives revolve around joining the EU structures, even after the change of political power in Kiev. Because its size and population, Ukraine is a key player in the region and it can also be considered a regional leader in terms of its relationship with the European Union: it was the first country which started negotiations for an Association Agreement with the EU as well as the first country to have concluded a Deep and Comprehensive Free Trade Agreement, as a part of the future Association Agreement, although strong economic groups in Ukraine oppose such an agreement with the EU.

Geopolitically, Ukraine is definitely a strategic gas transit country and a key actor in the Black Sea region who is not going to commit itself openly to neither Russia nor EU. Moreover, Ukraine acknowledges the need to maintain a certain geostrategic ambiguity, as a way to preserve its independence, (Vecchi, 2011, 33) and is not going to leave its geostrategic comfort zone anytime soon.

#### *1.3.2. Moldova*

Moldova's EU negotiations developed more quickly than those of Ukraine, maybe due to the fact that the country is much smaller in size and it displays an increased availability to accept EU conditions. Referred to as a "success story", Moldova is the neighbouring country with the greatest progress, not only in terms of economy and trade, but especially in terms of democracy and rule of law. Despite the previous challenges that the ex-communist Moldovan government raised, the new ruling coalition formed after the 2009 elections, the Alliance for European Integration adopted a more optimistic and opened approach towards the ENP and its Eastern Partnership, by fully cooperating with the EU.

However, after a period of relative stability and significant progress in its reform efforts, Moldovan politics entered a new phase of instability, due to an attempt to cover up an incident (allegedly a killing with political interests) by the country's general prosecutor. The incident has been followed by significant increase in political tensions, which culminated with the resignation of Valer Filat, the country's prime minister. Despite the on-going political tension, Moldova potentially remains the best example of a successful transformation under the EU's ENP. Despite its significant progress, it is clear now that Moldova has still a lot to work on its judicial system, the de-politicisation of state institutions and the fight against corruption.

Although Moldova has pan-European aspirations, it highly depends on Russian energy supplies and the economic cooperation with the Federation holds a clear high strategic importance. In addition to the energetic dependency that Moldova has towards Russia, the Transnistrian region still raises several concerns that can be only dealt by constant support, dialogue and cooperation with the Russian Federation.

### *1.3.3. Georgia*

Georgia's attention and ambitions revolve around integration into European and Euro-Atlantic structures and thus the EU leverage over Georgia has great potential. However, the 2008 war with Russia delayed its access to NATO and the impulsive style of the president Saakashvili, as well as the suppression of opposition mass-media have seriously damaged the reputation of Georgia and reduced the support it used to get from EU. Georgia's relations with Russia became very steep, especially after the war. Nevertheless, even before 2008, Russia has had a mildly aggressive attitude towards Georgia since the country announced its pan-European intentions, materialized in economic and political sanctions.

Besides the economic aid that Georgia receives from the EU, this country is primarily interested in the union's involvement in conflict resolution in the Caucasus, which is a very difficult and sensitive area for the EU to get involved in, mainly for political reasons. It is a highly-politicised area which involves other international actors and organisations, the most significant one being the Russian Federation. Because of this, EU should aim to engage with these breakaway regions directly, not only through partner countries. (Fischer, 2011, p.5-6)

Since Georgia is an important energy transit country, the government is also interested in energy security and developing new energy transit routes (EU Nabucco pipeline project). (Boonstra, Shapovalova, 2010, p 17)

### *1.3.4. Armenia*

Even if Armenians have an overall positive perception of the EU and its objectives, the political elites of the country are more divided on the issue of European integration. Because of its location, between Azerbaijan and Turkey, Armenia represents a reliable ally of Russia in the region, as well as a very isolated country. Developing further cooperation and partnership with the European Union, generally represents for Armenia a way out of regional isolation, as well as a way of obtaining new funds to modernize and develop the country. (Boonstra, Shapovalova, 2010, p.9)

Resuming mainly to pragmatic reasoning of cooperation, the Armenian government declared its interest in visa liberalization as well as in the creation of a free trade zone with the EU. Politically, the aspirations of Armenia regarding the EU, are practically inexistent, Armenia's only hopes and desires from the EU are to play a part in stabilizing the troubled Caucasus region.

#### *1.3.5. Belarus*

Belarus has no EU membership aspirations and is often considered a Russian satellite, being, by far, the least democratic country among the six. Nevertheless, in recent years, the relations with Russia have become increasingly tense and have been negatively affected by the Russian-Georgian war. Because its excessive dependence on Russia, Belarus perceives the relations with EU as a constituent part of the country's way out of isolation. The Belarus population is almost equally divided between those who prefer an European option and those who want a closer integration with Russia.

The acceptance of Belarus as a partner in the ENP (EaP) represented a moral dilemma for the European Union, since President Lukashenko is known for human rights violations. EU's sanctions (restrictive measures) –“one of the EU's weapons of choice to effect change beyond its borders” (Dytrich, 2013, p.1) in trade and security policy, meant to project EU's normative power in the areas of human rights, fundamental liberties and the rule of law, have achieved little success in enforcing meaningful change in Europe's “last dictatorship”(Dytrich, 2013, p.1) Therefore, because the Belarusian regime had made several liberalization attempts and since the EU strategy of isolating Belarus did not bring significant results, the EU went ahead and accepted the regime in Minsk.

Initially, the access of Belarus in the Eastern Partnership raised high expectations among EU Member States, but they were tempered shortly after when it became clear that the Belarusian regime was interested only in economic benefits and the EU is expected to refrain from any efforts to get involved and take actions to democratise the country. (Boonstra, Shapovalova, 2010, p.19) Within this context, the Lukashenko's regime perceives the role of the EU strategy in Belarus strictly as counter-balancing Russia's influence and providing financial and technological

transfers, albeit foreseen without any conditionality or political reform. (Dytrich, 2013, p.1-3)

Despite all the setbacks encountered, through the ENP, the EU is becoming an even more important trading partner for Belarus, increasing its lead over Russia as the most important destination for its exports – a fact which could determine the regime to seek better relations with the union. (Dytrich, 2013, p.4)

### *1.3.6. Azerbaijan*

Azerbaijan is an unique case in the Eastern neighbourhood. While all the other five neighbouring countries are balancing their policies between Russia and EU, Azerbaijan seeks for independence and sovereignty, being at the same time one of the most authoritarian countries within the Eastern neighbourhood. Therefore, this country is not interested in EU integration, neither in belonging to the Russian sphere of influence. The relations it develops with both EU and Russia are mainly based on economic cooperation. Regarding the EU, Azerbaijani interests are especially related to energy and visa liberalization. In the political sphere, Azerbaijan does not seem willing to implement democratic reforms and is mainly interested in support regarding security issues because of the on-going Nagorno-Karabakh conflict with Armenia. (Boonstra, Shapovalova, 2010, p.18) However, the EU is less involved in solving this conflict than those in Georgia and Moldova.

This attitude that Azerbaijan promotes is solely due to the rich energy resources that the country possesses, which makes it less dependent on EU conditionality, and consequently less interested in EU economic assistance. Overall, Azerbaijan remains a key energy partner for the European Union. On several occasions, the later, has often been accused of double standards: while it sanctions Belarus for human rights infringement, it has failed to do the same with Azerbaijan, a country which is as authoritarian. This rationale is based on the EU's prioritisation of economic interests over democratic conditionality. (Fischer, 2011, p.2)

## **2. GEOPOLITICS AND AFFINITIES IN THE EASTERN NEIGHBOURHOOD**

The Eastern Neighbourhood represents a buffer region situated between the most important geopolitical structures in Europe: Russia and the European Union. The ties that these buffer states develop with each of these two poles are of vital importance for the future and prosperity of the entire European continent, but especially important for the six buffers countries' stability and growth.

## 2.1. Overview of the EU-Russia relations

In order to grasp the depth of the geopolitical relations developed in this part of the continent, it is necessary to first analyse the perception and approaches within the European Union–Russia relations, in accordance to their policies and objectives in the buffer region.

A simple glance at the map of Europe is sufficient enough to understand that Europe cannot escape creating closer ties and maintaining dialogue, as Russia is a main actor in the geopolitical world scene. After the latest EU enlargement, the geopolitical interests of the two actors clashed and in several occasions, the dialogue between Russia and the EU was accompanied by misunderstandings, misconception and lack of trust. Nevertheless, the growing economic interdependence between the two actors does not reduce itself to energy transactions. The EU and Russia are bound to cooperate in dealing with a number of challenges internationally, as well as in their common neighbourhood. Promoting good relations and a viable partnership between the two does not affect only the two powers, but it also has a deep impact on the buffer region. Both Russia and the EU should be content with a gradual but steady approach to sustain, or at least not to “antagonise” each other and to create a common space of “civil” neighbourhood. (Vecchi, 2011, 4)

Further on, this paper will pay specific attention to the lack of understanding between the two actors. Given the great differences between these two powers, in all aspects: economic, political, military, ideological, historical as well as the contexts in which they have formed and developed, the mentality, unity or territory, it is not difficult to comprehend that they meet challenges and difficulties in understanding each other;

Regarding the EU failure to understand Russia, Winston Churchill stated: ‘I cannot forecast to you the action of Russia. It is a riddle, wrapped in a mystery, inside an enigma; but perhaps there is a key. That key is the Russian national interest’, (Vecchi, 2011, p.17) Overall, in the EU, Russia is still perceived as opposition or competition when it comes to the EU’s Eastern neighbourhood. Is it possible that EU did not take the right approach in understanding Russia? As Churchill said, in its approach, the EU should first take into account the Russian national interests.

As Vecchi noted, the EU does not always approve of the United States’ means of defending or promoting its national interests, (Vecchi, 2011, p.17) but nevertheless, its methods are not allowed to disturb or affect the effective economic cooperation and partnership between US and EU.

The EU’s main objective of its foreign policy towards Russia is to export its set of norms and values. It is quite obvious that Russia is not perceived as an equal partner and this might be the EU’s first wrong step in its approach. Economically, the EU criticises the politicisation of the Russian gas, namely the Russian schemes and strategies which are perfectly clear and rational (if taken into consideration the Russian national interests): “exert maximum economic and political leverage from

its energy assets, and limit alternative competitive supplies to European markets to enhance revenue". (Vecchi, 2011, p.9)

Despite the existing divergences and interests, the proximity and complementarities that characterise EU and Russia oblige both of the actors to cooperate. The major differences between them outline the need of a harmonisation process in order for consensus and agreement to take place. This will require a symmetrical approach in which EU accepts Russia as an equal partner and, consequently will refrain from linking business and trade to non-economic goals and values. (Vecchi, 2011, p.18)

## **2.2. The European Union and Russia in terms of power**

When it comes to the concept of power, Russia is a resurgent superpower (Allison, 2008, p.1171) and its system is based on a close association between the prestige of the state and that of the army. (Gomart, 2008, p.5) Within the world stage, Russia craves for recognition, namely to have the status of a potential global player once again. (Allison, 2008, p.1171) That is why the Georgian conflict did not express the desire of territorial enlargement but a desire for respect, image and recognition of power. (Allison, 2008, p.1171) Despite Russia's return to power, through economic development, political stability and strategic ambitions, it shouldn't be overlooked its demographic disaster and lack of technology that this country is facing. (Gomart, 2008, p.8) These aspects push Russia to seek and form strategic partnerships with the European Union, as well as to better valorise and use the interdependent relation which they develop.

On the other hand, the EU is more of a political prototype as well as a bureaucracy (The Commission) reluctant to submit to democratic control. (Gomart, 2008, p.8) The European Union's attitude, that of an emerging soft power which is reflected in the union's reduced involvement in conflict (frozen) resolution of the area, led the EU to pay the bill for reconstruction in cases such as Georgia.

Overall, the EU's power fragmentation is caused by a lack of political homogeneity of the Member States. There is a widespread conception regarding the division of the EU countries regarding their attitude towards Russia which involves the existence of two groups of Member States: old and new. Regarding their attitude vis-a-vis Russia, the EU Member States either promote a pragmatic or a moral one. Overall, each Member State tends to adopt one of the two main political paradigms. At one end of the spectrum are those who see in Russia a key trading partner (usually the former members of Western Europe) and at the other spectrum are those who perceive Russia as a threat (usually new members from Central and Eastern Europe). In general, the bilateral disputes between Russia and the EU Member States affect the Union's foreign policy towards Russia and hinder the economic cooperation between the two at a regional level.

Conventionally, both demographically and economically, the EU poses as a greater power than Russia. However, the lack of European unity makes Russia outperform the EU, when it comes to the concept of power. Therefore, Russia behaves as a real global power, while the EU still questions its own identity, thus not being able to become a credible security player. (Gomart, 2008, p.8)

### **2.3. Russia and EU versus their common neighbourhood**

The external pressures on the sovereignty of EU's eastern neighbours are very high, because neither Russia nor the EU treats them as truly sovereign states. Russia believes that they do not possess the ability to be sovereign and the EU exports its own standards and values in all partner countries, regardless that neighbours are not candidates for accession. (Boonstra, Shapovalova, 2010, 17) However, the EU's neighbours often use their relations with the EU neither for modernization nor choice but as a tool to enhance their freedom of action in relation to Russia. All EU's eastern neighbours - from Belarus to Azerbaijan – perceive themselves as a "bridge" between East and West and they develop partial multi-vector policies (except for Georgia).

Most Eastern neighbours' governments want a selective European Neighbourhood Policy. EU's neighbours often are not interested to import the entire *acquis communautaire*. Azerbaijan is interested in energy cooperation, Georgia wants more EU support against Russia, but none expressed enthusiasm regarding Deep Free Trade regime from the EU, which involves harmonizing national regulatory framework with the EU. (Ivan, 2011, 228-234)

Eastern neighbours are different in several ways. Broadly, Moldova and Ukraine shape their domestic and foreign policies in compliance to EU's requirements. Nevertheless, they want some kind of "selective convergence" with the EU, not to adopt its *acquis*. (Simionov, 2013, p.18) All three countries have a common core set of characteristics. Moldova, Georgia and Ukraine are fundamentally pro-European, but none of them has elites fully committed to Europeanization as a process of internal reforms;

At the other end of the spectrum are Armenia and Belarus, for which Russia is the foundation of security and economic welfare, and are likely to be strongly integrated into the Russia's sphere of influence. Therefore, for these countries, relations with the EU are of less importance and they are subordinated to their relations with Russia. (Simionov, 2013, p.17)

At the extreme end of the spectrum is located Azerbaijan, the only country in the Eastern Neighbourhood which calls for "sovereignty" in external relations and does not accept lessons of values or any interference in their internal affairs from external actors. But Azerbaijan's ability to maintain its position depends on its oil reserves; it is thus vulnerable to oil price fluctuations.

Despite their different views or perception, most of the countries in the common neighbourhood have various similarities and common ground. In three of

the six countries, Russian is a second language and the Orthodox religion is embraced by the majority of the population. Therefore, despite recent frictions with Russia, the cultural and families ties are quite deep, so that even the most pan-European of the neighbours, cannot disregard their ties with the federation.

## CONCLUSIONS

Overall, the European Neighbourhood Policy transmits that the new neighbours are important for the Union and therefore are offered a new kind of relationship. Although the European Neighbourhood Policy was expected to be a very ambitious foreign policy which should have provided the neighbours with clear references for reform, the realities of the Eastern neighbourhood show that the main objectives haven't been reached. Some partner countries have made progress on economic reforms, but the record of democracy promotion in the Eastern neighbourhood remains weak. The discrepancies between the neighbours' expectations and the EU's offers have further undermined the efficiency of this policy and it is unlikely to change within the current economic crisis and enlargement fatigue context.

The buffer region constitutes a very complex geostrategic environment with Russia not being an independent actor. Because of the lack of dialogue and cooperation between the EU and Russia, the interaction between the two has not been constructive so far for the buffer zone countries.

On the other hand, based on the same European principle of developing and maintaining good neighbourly relations, all the buffer states seek to have good relations with both Russia and the European Union. Overall, the countries in the common neighbourhood, strive to balance West and East in order to preserve their sovereignty and independence, as well as to achieve their own national interests. EU needs to understand that Russia plays a crucial role in developing and modernising these countries. Without its involvement, it can turn very challenging for the EU to manage the Eastern neighbourhood with all its regional issues. Russia has a wide experience in dealing with these countries and it can prove to be an asset for the EU. Also, EU could try to disclose its objectives and intentions in the neighbourhood more openly, in order to make Russia more susceptible to cooperation. At the same time, Russia should see beyond spheres of influence and should give up its zero-sum thinking: economic development in the buffer zone might bring many benefits to the Russian economy. Instead of competing for regional influence, Russia and the EU should work together in supporting and assisting their common neighbourhood.

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# AN EVALUATION-BASED APPROACH FOR OPTIMISING THE POLICY TRANSFER FROM THE EU TOWARDS THE MEMBERS OF THE EASTERN PARTNERSHIP: CASE STUDY ON THE REPUBLIC OF MOLDOVA

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**Abstract:** *The transformative power of the European Union over the countries in the Eastern Partnership is becoming more obvious, both from the perspective of the transfer of institutions, norms, values, practices and public policy instruments, as well as of the exponential participation of beneficiary countries in the EU market. However, some conditionality's are adequate to the context, while others are quite foreign from the internal administrative culture and practice. Thus, in order for the transfer to be adequate, efficient and effective, the EU is interested in institutionalising a series of practices and instruments connected to evaluation in the Eastern Partnership states. Our communication targets the deepening of the aspects which refer to the use of evaluation in the ENP, as aspects which are connected to making the policy transfer process from the EU towards the countries in the Eastern neighbourhood more adequate and relevant. The stake of the policy transfer is represented by the institutionalization of a real governance framework in all the public and private domains and sectors. To this end, we will direct our analysis on the assistance which was granted to the Republic of Moldova by the EU and on the way in which evaluations have been implemented and have contributed to improving and making the policy transfer more efficient.*

**Keywords:** evaluation, policy transfer, transformative power of the EU, institutional isomorphism, policy convergence.

## INTRODUCTION

The EU is one of the most active international structures which widely and comprehensively use the evaluation of its own policies, programmes, initiatives and interventions. This is why, as we will explain further on, by using its convergence and isomorphism practices, the EU gains a considerable power of transformation over the approaches, policies, actions and internal instruments of member states, but

also of third states, especially those which are part of the Eastern Partnership. For the states which are part of the Eastern Partnership the transformation is rather a voluntary process than a conditionality. In the case of other states, such as the Republic of Moldova, the conditionality stems from the political desire for association and accession to the EU. The transformation can be noticed through the institutional change which entailed the adjustment of approaches, practices and internal procedures to those of the EU member states. Starting from the fact that the Joint Declaration of the Prague Eastern Partnership Summit on 7 May 2009 establishes that „*The European Union will develop Comprehensive Institution-Building Programmes individually with each partner country in order to improve their administrative capacity, including through training, technical assistance and any appropriate innovative measures*” (European Commission, 2008, p. 823), the practice of evaluations, in all its forms, is indispensable. However, on the one hand, the states in the Eastern Partnership haven't established the development of an internal culture of evaluation as a priority, and, on the other hand, the European Union, in spite of the technical and financial assistance which was granted, has not managed to offer a consistent input in this direction. Thus, the policy transfer process aimed towards improving administrative capacity remains rather diffuse than uniform and well adjusted.

In this paper we aim to reflect on the way in which institutional or organizational evaluation is used for increasing the efficiency of the transfer of approaches, instruments, actions and practices, thus contributing to the enforcing of transformation processes. We consider that an approach based on institutional and/or organizational evaluation can offer answers to a series of questions such as:

- What determines or stimulates organizations to transfer policies?
- Which are the most frequent means used for achieving the transfer and how could they become more efficient?
- What are the results and effects of the transfer and how does this process contribute to the institutionalization of a states' own and autonomous governance framework, which is compatible with the governance framework/frameworks in the European Union?
- How can institutional or organizational evaluation be used in the organizational and systemic learning process?
- What alternatives for improvement and increased efficiency can be found through evaluation?

These questions will help us further on to conduct a rather critical analysis of the way in which the assistance for development for the Republic of Moldova is focused in the context of the Neighbourhood Policy and the Eastern Partnership. Thus, in the first stage we will discuss the way in which the transfer of policies and the institutional or organizational change take place. Then, based on these elements, we try to present several facts regarding the way in which the segment of evaluation is understood and used in the institutional transfer process from the European Union

member states to the central public administration in the Republic of Moldova. In order to accomplish this we have studied a series of annual and longitudinal reports elaborated by the services of the European Commission, but also by governmental agencies and think-tanks in the Republic of Moldova.

## 1. THE ROLES OF EVALUATION

Evaluation can be used for purposes such as improving programmes and policies, justifying their merit, justifying the allocation of funds, analysing effectiveness, efficiency, relevance or adequacy, grounding decisions, increasing the capacity of human resources etc. Evaluation is also a useful instrument for institutions or organizations, by guiding them to improve their performance and adaptation capacity, while also being a means of developing public and social responsibility. Even though evaluation is theorized as a stage in the public policy cycle, in practice this stage takes place on a small scale. For example, in the states in Central and Eastern Europe which adhered in the 2004/2007 wave, the practice of evaluation has started to develop in recent years, an important factor towards this end being the influences of external pressures, especially from the European Union programmes whose financing critically depends on the evaluation of the programmes and projects which are carried out. Thus, manuals and evaluation guides have been developed, focusing mostly on the practical side of evaluation. At the same time specialized literature in the field of evaluation has started to develop, even though the understanding and developments of a fundamental theoretical framework is still incipient. What is more, a series of professional organizations in the field of evaluation have been created, which actively contribute to the development of an internal culture of evaluating public policies and programmes.

While in the case of the states in this region which have adhered to the EU in the 2004/2007 wave we can observe a process of developing an evaluation culture, which is used more and more for institutional and organizational evaluations and public policy and programmes evaluations, the states which are part of the Eastern Partnership have not made evaluation an obvious priority. Thus, in the case of the states from the Eastern Partnership, referring here especially to the Republic of Moldova, institutional and organizational evaluations do not represent a frequent practice. On the other hand, this type of evaluation is in full development in the European Union member states. For example, in Romania there has been an increase in the interest for the role and efficiency of organizations, organizational change, causing and influencing factors, results or the way in which organizations use policy instruments, especially in the context of managing structural and cohesion funds for the 2007–2013 financial framework. On the other hand, practices such as miming the achievement of standards, replicating the behaviour of older organizations, accomplishing only what is minimally necessary in order to obtain financing without thinking strategically and selecting elements which can be used or developed later

on are an indicator of the lack of continuity in policy thinking and of the insufficient exploitation of organizational learning.

Evaluation has, among other roles, the role of reducing the necessary time for identifying solutions which are adequate and to guide organizations towards more efficient, flexible and durable solutions, especially when they are subjected to consistent external pressures – we can note the influence of EU policies and initiatives in the fields of competition, environment and durable development, social and occupation policies etc. In this case, organizational learning will take place in a more structured manner, with an accent on the experience which has been accumulated by similar entities in neighbouring states and regions. Thus, the vision and development strategy for beneficiary organizations or organizations which are involved in a change process will stem from the experiences which have taken place in another state or region, in a context which is more or less similar. The EU Neighbourhood Policy and the Eastern Partnership focus on such an approach, through which the transfer of policies, practices, actions and instruments is a rather voluntary, soft power type process, rather than a conditional, hard power process.

If from the beginning of the European Neighbourhood Policy (2004) until now the policy transfer takes place in a more or less voluntary context, in which the relationship is premised on top-down rule transfer, conditionality and partners limited input in the decision-making process (Korosteleva, 2012, p. 128), once the association agreement with the EU is signed by a state in the Eastern Partnership region, the policy transfers which will derive from the treaties will become mandatory. This aspect also leads to a change in the transfer approach from a lesson drawing transfer type to a coercive transfer. In the case of lesson drawing transfer type, prospective evaluation gives aid in achieving a better adaptation of the approaches and instruments which have been transferred, while in the case of coercive transfer evaluation plays a much more important part. In this case, evaluation helps to increase the efficiency and improve the transfer so that the desired changes become visible in a relatively short time, and the eventual perverse effects do not hamper EU policies.

Evaluation can also be used for adapting policies and organizations, which helps save time and increase the probability of identifying an adequate approach. Thus, while a policy, a programme or an organization develops, on-going or intermediary evaluations point out potential problematic aspects, difficulties, reticence, unfavourable conditions, unintended effects (positive or negative), but also alternative means of handling problems. This allows for reflection and rapidly identifying solutions for improvement and for reaching the expected results or effects. A prospective adaptation approach helps reduce the time of uncertainty, informs debates and decisions and provides continuity in the programmes implementation or the activity of the organization which ensure the proper functioning of institutions. Understanding in real time which aspects can be improved also speculates flexibility, allowing measures to be taken before an activity

is too advanced to make changes. What is more, costs are reduced because activities are not allowed to take place until the end in a possibly deficient manner. Inefficient aspects are corrected and resources are redirected to aspect which have more worth or which need to be sustained more. Thus, prospective adaptation represents a more accessible and less costly alternative to change, which can entail sudden and larger efforts, and is often the *post* results of constraints coming from the institutional environment, when time related pressures can lead to choosing less effective solutions than a prospective approach, which allocates more time for understanding the context and for creating optimal solutions for organizational development.

By analysing the context in which the Eastern Partnership was developed and launched we can state the fact that, in reality, this multilateral cooperation initiative has not used prospective evaluations to such a great extent. The vision and objectives of the initiative were based on the political desire of getting closer to third states which were the object of the EU values and socio-economic model. To this end, in order to make the initiatives' measures more adequate to the real capacity of beneficiary organizations (public central and local authorities, nongovernmental organizations, profit organizations) to initiate institutional, organizational and policy changes, there is a need for comprehensive meta-evaluation activities which would asses both the way in which the evaluation of the implementation of the Action Plan was undertaken, as well as the country monitoring which was carried out during the first phase of the ENP implementation. This is why, due to the lack of an institutional and organizational prospective evaluation framework that could demonstrate the feasibility and the degree of acceptance of institutional/organizational change, some projects such as Twinning, TAIEX and SIGMA do not reach the desires indicators, and there is no consistent data which could explain why this is happening, even though the implementations were carried out according to the initial design, and the desire for institutional change and for becoming closer to the EU type of governance (Korosteleva, 2012, p. 104) is still maintaining.

## **2. THE EASTERN PARTNERSHIP AS AN ISOMORPHIC CONTEXT FOR POLICY TRANSFER**

The transformative power of the EU over third states mainly consists in its capacity to generate and maintain a series of institutional and organizational changes. In fact, the EU's transformative power can be noticed through the EU's capacity of offering viable, consistent and durable institutional and organizational models, which it can easily transfer to the third states it wishes to deepen collaboration relationships and even offer perspectives for a possible adhesion to the Union, thus replacing the old socialist institutional ideas. This is why the viability of the transformative power begins from the idea of offering stable and efficient models, which after undergoing processes of prospective evaluation can be transferred,

through different means of transposition, in third states which aspire to a more advanced relationship with the EU.

In order to analyse the role of organizations, be they public, private non-profit or private for profit, in the policy transfer process we need to understand the relationships which define the institutional environment in which this transfer takes place, what are the main types of organizations which promote, facilitate or conduct the transfer and which are the main means, methods or instruments they use. To this end, we can take into consideration the behaviour of responding through the transfer of public institutions or other types of organizations at the demands or pressures which come from the European Union, within the cooperation based on regional initiatives, demands which can be seen initially as an element from the environment external to the organizations, and, on the other hand, the process of internalizing the practices and policy instruments which have been transferred, according to the rhythm of institutionalization at the national level of the states' own governance framework. What is more, taking into consideration the fact that the administrative area which is targeted by the technical and financial assistance instruments subsequent to the Eastern Partnership is quite heterogeneous, even within a third state, it is clear that the results of interventions will be different from one institutional context to another. This aspect is not so permissive with regard to conducting comprehensive comparative analyses in order to improve the intervention instruments and methodologies.

Neo-institutionalist approaches in the field of the European integration theory analyse organizations by using elements such as obtaining legitimacy, enforcing and connecting organizational fields, routines, patterns and myths regarding what is expected from organizations. Referring to organizations' behaviour in deepening the European integration, the main point is to identify the type of behaviour which is recognized from a normative point of view (normative order), rather than to analyse different behaviour alternatives and choosing the most efficient one. Originating from political science theory, this approach underlines the power of influence of norms and of the conventional image that is built around legitimacy (March and Olsen, 1984, p. 744). In this direction, Meyer and Rowan argue that, in order to obtain legitimacy, organizations have the tendency to create an image regarding their activity which meets the social prescriptions regarding what an organization of that type should be doing. Thus, organizations become isomorphic with the social prescriptions (myths) of the environment which they are part or desire to be part of, building formal structures which are similar to each other (Meyer and Rowan, 1977, p. 349). In consistence with this idea and contrary to the approach which considers that there is a vast diversity of organization types and tries to explain this diversity, DiMaggio and Powell seek to explain the homogeneity of organizations. The two authors state that, in the initial stage of an organizational fields' life cycle, the organizations within it present a great diversity, both in approach and in shape (DiMaggio and Powell, 1983, p. 148). For example, we can invoke the context of

the policies and practices in the field of competition which were developed by member states of the EC during the years 1960-1980. Practically, at that time every state had its own ideas regarding the control of restrictive practices, dominant position abuses mergers and state aids (Wilks, 2010). Continuing the approach of the two authors, when the organizational fields consolidates, we can notice that the organizations within it have a tendency to become homogenous, and the similarities between them are generated by their attempts to undertake changes (DiMaggio and Powell, 1983, p. 148). This process of homogenization is called isomorphism, which is defined by Hawley as a “constrictive process which forces a unit within a population to resemble the other units which are facing similar environment conditions” (Hawley, 1968), and in European integration theories the understanding of institutional isomorphism can be interpreted as a phenomenon of institutional convergence. Thus, continuing the previous example, over the last four decades there has been a process of sophistication and efficiency of the common understandings and practices in the field of competition, which have become identical in all member states. What is more, in this context of progressive evolution, the European Commission, under the auspice of the accumulation of a solid juridical framework but also of an advanced knowledge in the field of competition, had the central role of implementing this policy, and, as a consequence, governmental and profit organizations from member states had to adjust their procedures and administrative approaches which are specific to competition. In time, after the cooperation of the EU with third states in the eastern neighbourhood deepened, the juridical and normative framework spread through the conditionalities which resulted from the collaboration agreements.

Thus, after transferring approaches, practices and specific instruments, successive changes lead in time to an increase of the degree of homogeneity within the organizational fields of the third states with those of the EU. In the case of the Eastern Partnership, this homogenization process bears a substantial ideological weight – the desire of beneficiary states to become closer to the values, principles and policies of the EU. However, without offering a clear perspective for the adhesion of these states to the EU, the EU’s transformative power aims to create a consolidated political, economic and social governance. In a similar way to the fifth wave of the EU’s expansion (Verdun and Croci, 2005, p. 19-20), this approach has the capacity to generate a gradual change in the process of public policy making and to enforce in the respective third state the socio-economic model developed by the EU, a process which is grounded through periodical sectorial and transversal evaluations.

Another interpretation of isomorphism points out the connection between the homogenization tendency of organizations within a field and institutionalization processes. Thus, the creation of structural similarities between organizations is considered to be based on the conformation to institutional norms and not only on the development of connections and interdependencies between organizations

(Dacin, 1997, p. 47). The sources of these institutional norms include “*an extended normative environment, the state and other dominant organizations, professional norms and standards, but also the uncertainty regarding the requirements which organizations have to meet*” (Dacin, 1997, p. 48-49). This approach begins from the understanding of institutionalization processes in rapport with the social expectations which appear with regard to organizations and which structures their behaviour. Of course, these expectations are evaluated according to a set of relevant criteria, and the institutionalization process and the pressures which it exerts on organizations can thus determine changes in their behaviour, but also in the behaviour of dominant organizations which are not part of the field, but which interact with it, as is the case of improving the quality of the normative system (a component of the state of law) (Balzacq, 2009), as well as the modernization of the public finances management system and of the internal control (this being one of the essential priorities established by the Action Plan – Priorities of reform actions in the Republic of Moldova – Key measures until June 2011).

The classical approach of institutional change developed by DiMaggio and Powell identifies three types of institutional isomorphism: coercive, mimetic and normative. In the field of European studies the approach which is promoted by these two authors has been successfully used for explaining the way in which the EU’s policies and actions contribute to changes in the member states policies and actions (Grabbe, 2006, p. 68-73), as well as in the case of third states which are negotiating their statute of associated state. When using its transformative capacity the EU uses all these three types of isomorphism. Coercive isomorphism is based on the pressures to conform to formal regulations which come from an authority, which can be the state or other organizations which are influent in the social system. In the case of the Eastern Partnership, this authority is the EU. We can notice the importance of analysing the power which some organizations have in relationship with others, being able to constrain their actions through their own actions (Mizruchi, Fein, 1999, p. 665). Thus, in the case of the European Neighbourhood Policy, but also of the Eastern Partnership, the best example is that of the reform in the field of justice and internal affairs, a field in which institutional changes are rather incremental, and periodical monitoring reports point out the character of change through conformation to pressures from the external environment, especially those which are made by EU structures. What is more, due to the fact that the practice of evaluation was institutionalized quite recently at the level of EU structures and components, when the EU grants technical and financial assistance to the third states in the Eastern Partnership it does not have the capacity to influence by coercion the beneficiary organizations in order to institutionalize the evaluation dimension. This is why, in a similar manner to the consolidation of an internal evaluation culture for the states in the fifth expansion wave (1998 – 2007), the states in the Eastern Partnership are not yet constrained to ground their policies and internal budgets on sectorial and transversal evaluations, even if this process is becoming mandatory for member

states once the economic governance of the EU consolidates and the European Semester will be introduced as a working method for discussing economic and budgetary priorities at the same time every year.

Mimetic isomorphism is the solution which was found by organizations to a situation of uncertainty, a solution which refers to the imitation of the behaviour of other organizations in the same field (DiMaggio and Powell, 1983, p. 151). Consequently, the confrontation with a new situation, for which they do not have a clear solution, and the pressure of the limited time they have in order to decide how to act, determines organizations to mimic the strategy or behaviour of another organization in the field, which they consider to be a reference and with which they have established inter-organizational links in order to have access to its strategy. For example, in the case of organizations which benefit from technical assistance programmes some of the procedures and approaches which are proposed for institutionalization as in fact copied, more or less intact, after those which are already applied in former socialist states which have joined the EU in the last decade. However, in the course of time such a transposition proves to be inefficient due to the fact that some practices are not adequate to the context, and the transposition and institutionalization process fails. This situation is described very often in monitoring reports from specialized analysis centres. For example, in the case of the Republic of Moldova the series of Trimestral Euromonitor Reports, which were created by the Association for Participative Democracy ADEPT and the Analytic Centre Expert-Grup can be consulted.

Normative isomorphism is identified with processes specific to the need for professionalization, of creating an epistemic community and of undertaking an exchange of information, experience and practices (Bulmer, Dolowitz, Humphreys and Padgett, 2007, p. 18). Normative isomorphism processes are determined by common procedural standards, work methods and shared routines, which are facilitated by common professional and cognitive socialization. Organizations which adopt these elements of legitimacy, thus reaching an isomorphism with the institutional environment, increase their chances of survival (Zucker, 1987, p. 443). We can notice that an important aspect of normative isomorphism refers to social networks, which have the role of spreading all the elements mentioned above within the organizational fields, sustaining the socialization process within members, which can thus influence each other. In the process of deepening the relationships of third states with the EU perhaps the most relevant example specific to normative isomorphism refers to the establishment of a competition framework which is adequate to the functioning of the EU unique market. In fact, the normative isomorphic character is mainly caused by the benefits which are connected to the desire of gaining preferential access to the EU market (GSP and GSP+).

Essentially the Eastern Partnership offers a framework of transfer towards the states which are part of this process of deepening the relations with the EU through all the three types of isomorphism. Here we need to specify the fact that both for the

five waves of expansion, as well as for the functioning of the Eastern Partnership the EU's influence works in a context which is dominated by the institutional remains left behind by the socialist regime (Grabbe, 2006, p. 106). This is why the transformative power of the EU resides in the capacity to dismantle the old socialist institutional remains and replace them with institutions and values which are specific to the EU's socio-economic model. However, in order to make this process more adequate and efficient there is a need for more consistent prospective and retrospective evaluation.

### **3. THE USE OF THE EVALUATION DIMENSION WITHIN THE EASTERN PARTNERSHIP: THE CASE OF THE REPUBLIC OF MOLDOVA**

Both in the initial phase of the Eastern Partnership, as well as in subsequent phases, the evaluation dimension, as a specific step of the public policy cycle, is used quite poorly, especially in the context of the technical assistance offered by the EU to the Republic of Moldova. Of course, in the internal administrative space the notion of evaluation is still understood quite vaguely. In some cases evaluation is limited only to aspects regarding the implementation of projects, without pointing out the lessons learned and the experience which was gained, which could be used by other potential implementing organizations. Furthermore, the evaluation dimension is still not used as an indispensable component for grounding internal public programmes and policies, in spite of the fact that there is an explicit need, which is recognized by authorities, for undertaking integrated activities in order to develop administrative capacity and improve public policy making.

On the one hand, this is due to the fact that in the internal administrative culture the ideas regarding the analysis of public policy making are relatively recent, and a distinct school of epistemic thinking and action cannot be identified – except for a series of nongovernmental organizations such as think-tanks, while governmental organizations have only reached the stage of learning how to elaborate a public policy proposal. An incipient role in this exercise process was played during the years 2008 – 2010 by the “Support for implementing the National Development Strategy” project, whose beneficiary was the Government of the Republic of Moldova. The project was financed by the Department for International Development in Great Britain, and one of its results was the elaboration of a methodological guide for the ex-ante analysis of the impact of public policies. In spite of this, the learning exercise was limited to the impact analysis of a public policy proposal, which actually represents only one of the multiple components of prospective evaluation. On the other hand, there were no learning and stimulating exercises for developing intermediary and ex-post evaluation, which indicates the fact that at the current time some civil servants in the internal public administration only use a small part of the specific cycle of evaluating public programmes and

policies, and the isomorphic transfer of approaches, methods, techniques and instruments is still quite diffuse and inconsistent.

On the other hand, the technical assistance which was granted by the EU to the Republic of Moldova in the last few years has not encouraged the development of an internal culture of evaluation, which could be identified through a strategic document, as well as a national system of structures, departments, units and professional associations for the evaluation of public policies and programmes. It can be noted that the proper implication of the institutional capacity and the national human resource in the policy transfer process and in the absorption of the funds from the EU's technical and financial assistance is limited, these processes being mainly dependent of foreign expertise, which, on the one hand, determine the transfers to be less adapted to the internal administrative and governance environment, and, on the other hand, contributes to a delay in developing the states' own administrative capacities and in internalizing by national experts of approaches and instruments which are specific to the European Union space.

What is more, it can be noticed that the evaluations regarding the transfer of policies and the absorption of funds offered through the European Union assistance are usually external evaluations, which are conducted by different foreign consortiums or organizations, which do not fully understand the internal administrative characteristics. Even though from a methodological point of view the evaluations which are conducted respect the DG Development and Cooperation - EuropeAid approach, this situation indicates a lack of the habit and competencies to conduct evaluations at the internal-national, regional or local levels, evaluations which can closely underline the needs and particularities, but also the systemic evolutions at the intervention level.

From what we have pointed out above we can conclude that there is a need to institutionalize the evaluation of policies, programmes, institutions and organizations as a usual and periodical practice for public institutions at the central, regional and local levels, and especially for institutions and organizations which intermediate the policy transfer from EU member states, especially the former socialist ones, to the Republic of Moldova and which handle the absorption of the funds coming from the European Union. Here we can invoke the example of Lithuania, which during the pre-adhesion and post-adhesion periods established the development of a real internal evaluation capacity as a priority. By consolidating its internal evaluation system Lithuania managed to reach the highest absorption rate for European funds during the 2007 – 2013 financial perspective (Bărbulescu et al, 2013, p. 87). The case of Romania is on the opposing side, where evaluation does not represent an internal priority yet, and after the last shift in government the role of evaluation has diminished even more. Furthermore, Romania has the lowest absorption rate for European funds. Thus, the Republic of Moldova has much to learn from both these cases – from the case of Lithuania how to efficiently absorb the technical and financial assistance, and from the case of Romania how to avoid

situation of internal blockages in the management of the financial and technical assistance.

We also have to mention the fact that in order to sustain the process of institutionalizing the practice of evaluation and to develop in time a culture of evaluation in the public space, there is a need for developing specialized training programmes and continual professional training in order to create a highly qualified human resource in the field of public policy, European affairs and evaluation of public policies, programmes and organizations, in order to prepare for adhering to the European Union and participating as a member state to the multiannual financial programmes of the European Union. The technical and financial assistance which is granted through financial instruments subsequent to the European Neighbourhood Policy and the Eastern Partnership do not focus too much on consolidating the role of higher education institutions in the training, especially through life-long learning programmes, of experts in the fields mentioned previously, but also on the implication of universities in the processes of grounding and evaluating policies. Practically, universities should help facilitate normative isomorphism for the institutionalization of an internal culture of evaluation.

Another aspect which can be frequently found in reports for monitoring the way in which reforms in the public central administration are carried out in the context of the deepening cooperation with the EU refers to the need for elaborating sectorial strategies for socio-economic development, which need to be similar to the sectorial operational programmes which are developed and implemented by the member states of the European Union. This would ensure that policies and the technical and financial assistance would follow a vision on the long term, and their implementation will be integrated, separated into clear steps and more transparent. In spite of the fact that a series of medium-term macro-strategies for development have been implemented in the Republic of Moldova, some of these being sustained logistically and financially by the EU, these strategies have not been evaluated from a sectorial impact point of view, which would allow for the grounding of new policy proposals of modifying existent policies. Thus, the experience which was accumulated from these strategic programming exercises proves the coercive character of the isomorphism which is a result of the transfer of instruments, techniques and approaches. In spite of these facts, the strategies which have been implemented in the last decade have offered a framework for observing institutional and organizational change in the field of public management. Still, it is obvious that these processes of change and transformation need to be evaluated, both from a retrospective longitudinal point of view, as well as from a prospective longitudinal point of view.

What is more, there is a need to increase the institutional transparency of institutions and organizations which manage, implement, intermediate or promote the processes of policy transfers and absorption of the assistance for development, both of those which rely mainly on external expertise, as well as those which rely on

national experts. Even though the principle of transparency is transversal to the technical and financial assistance offered by the EU, the EU has not managed to fully enforce its positive coercion capacity over internal organizations. In some monitoring documents there are explicit mentions of the need to create a national informatics system for archiving and communicating the data and experience which has been accumulated regarding the transfer of policies from the European Union and regarding the absorption of the funds which are offered through the EU's assistance programmes. We consider that this aspect is of utmost importance not only from the perspective of respecting the transparency principle, which can be mimed successfully, but also from the perspective of undertaking an analysis, investigations and ample research grounded on procedural and chronological evidences regarding the transfer of knowledge and approaches from the EU member states to the Republic of Moldova.

## CONCLUSIONS

The EU's transformative power in the Eastern Partnership area consists in the transfer of approaches, practices, policies, actions and instruments, which is still quite diffuse. Their effect can be increased to a great extent if every administrative level internalizes the practice of evaluation. This is why technical and financial assistance need to develop the habit of using evaluation. In this way, the Eastern Partnership can bring a more consistent contribution to increasing the compatibility between the internal governance framework and the specific EU governance.

The EU's transformative power can be noticed through this isomorphic tendency which enables the systems within the states from the Eastern Partnership area to become closer to those of other member states. At the same time, there is a growing need for states to develop their own professionalization programmes for the evaluators' contingent, which will lead to a focus on their own resources of expertise, thus shifting evaluation exercises from the external expertise to the internal expertise.

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# THE ANALYSIS OF THE CONVERGENCE PROCESS OF THE EASTERN PARTNERSHIP COUNTRIES

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**Abstract:** *The current paper analyzes, in a benchmarking approach, how the Eastern Partnership group of countries, namely Belarus, Moldova, Ukraine, Armenia, Azerbaijan and Georgia are performing, compared with Romania and Bulgaria, the last two countries that have joined the European Union, in 2007, but also with the EU – 27 average. Our hypothesis is that these Eastern countries will follow a similar path with the new Member States on their road towards the European Union, considering their communist background and similar economic model, among which, for example the Council for Mutual Economic Assistance. On the other hand, we expect to see that these non-EU countries are facing a much faster post-crisis recovery against the Member States, benefiting from several competitive advantages and the positive trade with the EU. The analysis also focuses on the policy implications in the context of the European Neighborhood Policy. The benchmarking analysis is a multicriterial one, based on the set of cohesion indicators established for evaluating and monitoring the EU Cohesion Strategy, covering the most relevant macro-economic, social and environmental dynamics. The analysis covers five years, between 2007, the accession year of Romania and Bulgaria and 2011, the last one for which extensive data is available, comprising the entire crisis cycle.*

**Keywords:** convergence, Eastern Partnership, cohesion indicators, European Neighbourhood Policy

## INTRODUCTION

The Eastern Partnership (EaP) was established by the European Union and the six Eastern partners: Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine at the Summit of 7<sup>th</sup> of May 2009, held in Prague. This partnership represents a specific Eastern dimension of the European Neighborhood Policy. The main goal of the EaP, as stipulated in the Joint Declaration, is to create all the conditions that are necessary in order to accelerate political association and also economic integration between the EU and the interested partner countries. The EU has a great interest seeking stability, better governance and economic development at its Eastern borders

and through the European Neighborhood Policy, the six Eastern partners have been brought, both politically and economically, closer to the EU.

In order to bring partners closer to the EU, the Eastern Partnership introduces, for all partners, four thematic platforms on:

- Democracy, good governance and stability;
- Socio-economic integration and convergence with EU policies;
- Energy security;
- Contacts between people.

Also, Flagship initiatives were launched. These are focusing on: integrated border management, SME development, civil protection, diversification of energy supplies, regional electricity markets, improved energy efficiency and increased use of renewable resources and environmental governance. As one can notice, there are many similarities in the EU policies and interests for the member states and the areas of interest inside the EaP.

Given the context, the authors decided to analyze the evolution in the six partner countries of the EaP, taking into consideration the main economic, social and environmental indicators (for which data was available) and comparing this evolution with the one that the newest EU member states registered after accession. The indicators are analyzed over a five year period and they are also compared to the EU's averages. From the four platforms introduced through the European Partnership, the one of interest for the analysis is the second one, concerning socio-economic integration and convergence with the EU policies.

## **1. GROSS DOMESTIC PRODUCT (GDP)**

The six eastern countries reported in 2011 a total GDP of around 230 billion Euros, representing only 1.8% of the EU-27 GDP. The biggest economy among them, respectively Ukraine, reported a GDP similar to the one of Romania, although its market is significantly bigger.

However, against 2007, the cumulative GDP of the Eastern Group grew by 28.9%, compared with an average of 9.2% in the two new State Members and 1.9% in the EU – 27. The best performing Eastern economies have been Moldova and Azerbaijan, two small countries that proved to be more adaptive to the post-crisis context, whereas Armenia had a modest performance.

**Table 1. The Gross Domestic Product (current prices – EUR million)**

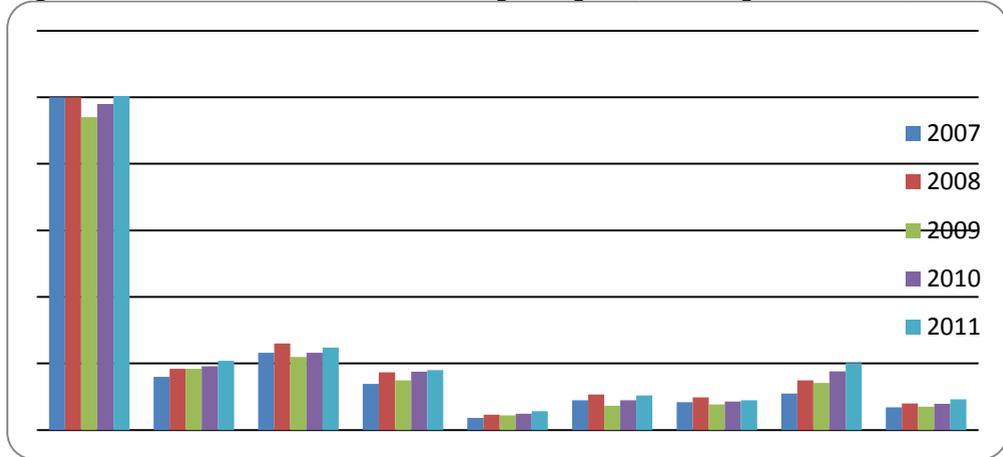
Country / year	2007	2008	2009	2010	2011	2011 vs. 2007 (%)
<b>European Union (27)</b>	<b>12406298.9</b>	<b>12473092.3</b>	<b>11754457.3</b>	<b>12278744.1</b>	<b>12642398.8</b>	<b>101.9</b>
<i>Bulgaria</i>	<i>30772.40</i>	<i>35430.50</i>	<i>34932.80</i>	<i>36052.40</i>	<i>38504.90</i>	<i>125.1</i>
<i>Romania</i>	<i>124728.50</i>	<i>139765.40</i>	<i>118196.00</i>	<i>124327.70</i>	<i>131327.00</i>	<i>105.3</i>
Belarus	33082.50	41403.21	35374.19	41640.67	42642.84	128.9
Moldova	3218.87	4114.70	3892.43	4383.23	5029.93	156.3
Ukraine	104183.80	122996.37	84040.65	102779.47	118700.81	113.9
Armenia	6731.97	7925.17	6192.28	6975.79	7280.31	108.1
Azerbaijan	24136.60	33171.24	31787.05	40061.32	46536.43	192.8
Georgia	7433.20	8715.55	7717.64	8773.20	10322.14	138.9

Source: EUROSTAT Database

### 1.1. Gross Domestic Product per capita (GDP/capita)

The GDP per capita indicates significant disparities between the EU – 27 average value and the one registered in the new Member States and the Eastern group of countries. The smallest GDP per capita is reported in Moldova (1,413 Euro, representing only 5.6% of the EU – 27 average), whereas Belarus and Azerbaijan are the main followers, with a similar level to Romania and Bulgaria.

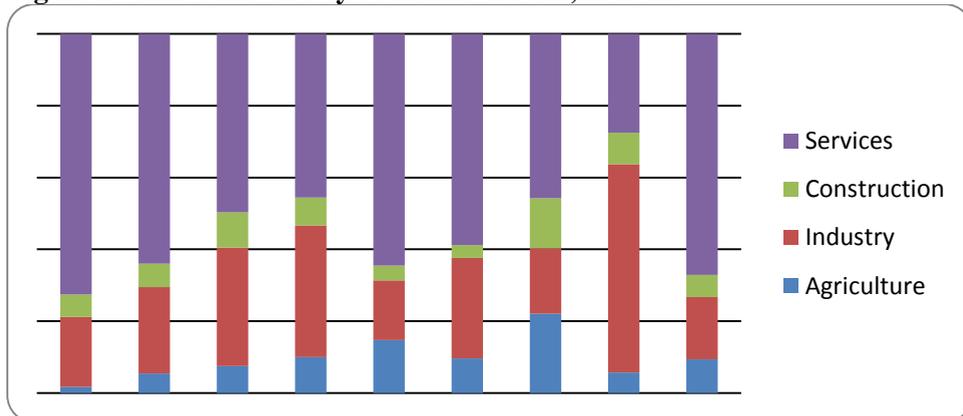
Between 2007 and 2011, GDP per capita grew by 37.9%, while the average for the new Member States was 16.3% and the one for EU – 27 of only 0.4%, confirming the convergence process. Regardless of certain competitive advantages and outsourcing trends, a certain contribution to the performance of eastern countries should be given to the baseline effect, considering the fact that the best performer (Azerbaijan) hardly reaches 20% of the EU – 27 average.

**Figure 1. The Gross Domestic Product per capita (current prices – EUR)**

Source: EUROSTAT Database

## 1.2. GDP structure

The structure of the GDP indicates the large share of low-added sectors (agriculture, industry) in all eastern countries, a typical case for the emerging countries. The tertiary sector, the one ensuring high-added value and wealth, is poorly developed in most of these countries, excepting Moldova and Georgia with shares of around 65% similar to Bulgaria and the EU - 27 average (72.6%). A special case is the one of Azerbaijan with an economy depending mostly on industry (58% of the total GDP), a singular case in Europe generated by the concentration of natural resources.

**Figure 2. GDP structure by economic sectors, in 2011**

Source: EUROSTAT Database

On the other hand, the significant share of the primary sector in Moldova and Armenia can be explained by the predominantly rural landscape and by the extension of the informal sector.

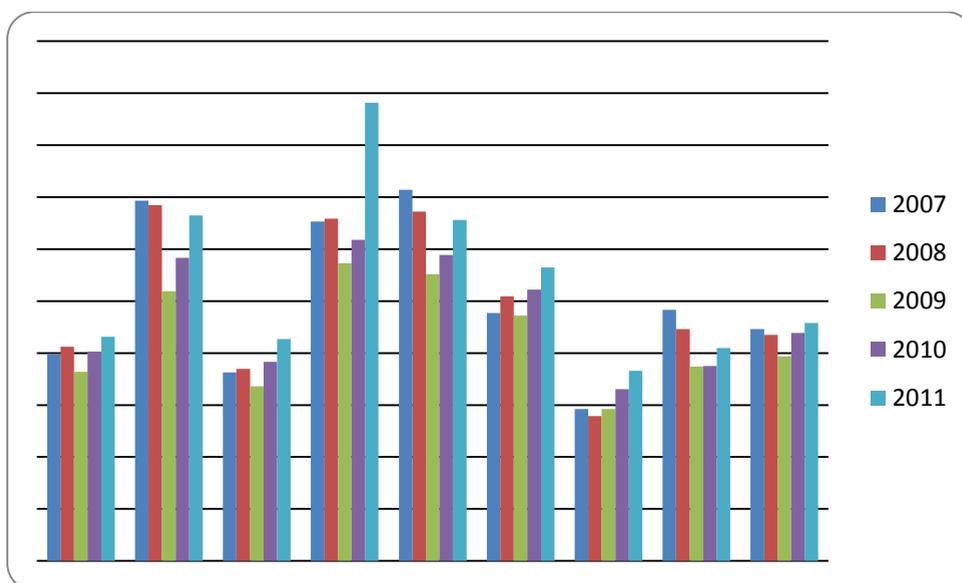
In the last five years, the structure of the national economies has been relatively stable, the only common trend being the decreasing share of the construction sector, the most affected by the world crisis. Romania was the only country to register an increased share of industry, supported by growing exports.

## 2. FOREIGN TRADE

The share of foreign trade in the total GDP is an indicator of the economic openness. As indicated below, most of the eastern countries are depending on the external markets. This is especially the case of Belarus, Moldova and Ukraine, with a share of over 50% GDP relying on the exports and imports.

On the other hand, countries such as Georgia, Azerbaijan and Armenia are less oriented towards external markets, mostly because of the low competitiveness and industrial decline. Moreover, most investors are still reluctant in investing in new production facilities in these countries.

**Figure 3. The share of exports and imports in the total GDP (%)**



Source: EUROSTAT Database

The only country in this group that has as main commercial partner for exports the European Union is Azerbaijan (59.6% of the total exports), whereas the other countries are still depending on the ex-soviet markets. In the case of Azerbaijan the large share of exports to the EU is generated by the flow of oil and gas, considering the abundance of natural resources of this country. Among the new Member States, Romania is the most integrated market, with more than 70% of its exports going to the Union European.

As concerns the imports, all the six non-EU countries have as main commercial partner the Russian Federation, consisting mostly of natural resources and raw resources. This dependence on Russian resources is a "heritage" of the soviet economic model, in which the foreign trade flows were generated mostly inside the Council for Mutual Economic Assistance. Most of these imported raw materials, special energy resources (gas, coal, metals, etc.), are used for serving the local markets and not further processed, explaining the negative foreign trade balance in all the eastern countries (excepting Azerbaijan, with sufficient resources of its own).

**Table 2. The share of exports and imports to/from EU - 27 and the foreign trade balance, in 2011**

Country / year	Exports to EU-27 (% of total exports)		Imports from EU – 27 (% of all imports)		Value of trade balance with EU – 27 countries (MEur)	
	2007	2011	2007	2011	2007	2011
<b>European Union (27 countries)</b>	<b>68.2</b>	<b>64.3</b>	<b>64.2</b>	<b>61.4</b>	<b>65077</b>	<b>67316</b>
<i>Bulgaria</i>	60.8	62.2	58.5	59.4	-4559	-1294
<i>Romania</i>	72.0	71.0	71.3	72.7	-	-7789
Belarus	43.7	38.9	21.7	18.8	3188	5061
Moldova	50.6	48.8	45.5	43.4	-731	-842
Ukraine	28.2	26.2	36.6	31.1	-6055	-5593
Armenia	49.9	45.9	33.1	25.9	-330	-330
Azerbaijan	27.6	59.5	29.3	32.3	0	9074
Georgia	21.4	*	27.4	*	-851	*

\* lack of available data

Source: EUROSTAT Database

Excepting Azerbaijan, the share of exports to and imports from the European Union has decreased in the last five years, mostly because of the shrinking demand on the internal market.

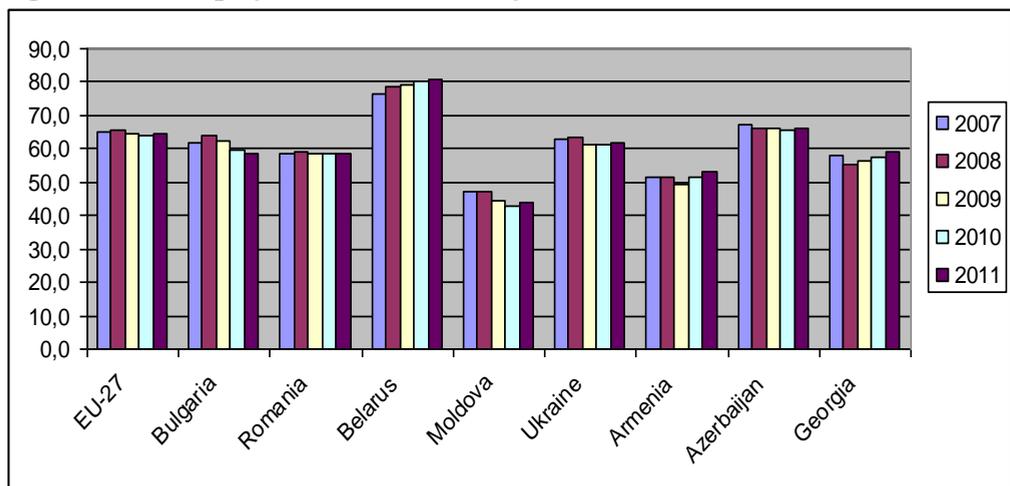
Overall, the foreign trade balance of the six countries with EU – 27 was positive, mostly as a result of the increasing exports of energy resources from Belarus and Azerbaijan. The countries without abundant natural resources, such as Moldova, Georgia and Ukraine have reported a negative balance.

### 3. LABOUR FORCE INDICATORS

#### 3.1. Employment

In 2009, as a direct effect of the world crisis, the employment rate in the 27 Member States dropped by 1.8%, reaching a minimum of 64.1% in 2010, almost six points above the Lisbon Treaty target of 70%. Among the two new Member States, Bulgaria was the most affected, with around 300,000 jobs cut in only 3 years.

**Figure 4. The employment rate (15 to 64 years - % of total)**



Source: EUROSTAT Database

As concerns the eastern countries most of them performed better than the EU average, with an increasing number of jobs in Belarus, Armenia and Georgia even during the peak of the crisis. However, we have to keep in mind that these emerging economies are small, flexible and that a large share of the population is occupied in the informal agricultural sector, sometimes in their own household.

**Table 3. The structure of employment, by economic sectors, in 2011**

Country/ Sector / Year	Agriculture, forestry and fishing (% of total)		Industry (% of total)		Services (% of total)	
	2007	2011	2007	2011	2007	2011
<b>European Union (27 countries)</b>	<b>5.5</b>	<b>5.2</b>	<b>17.2</b>	<b>16.0</b>	<b>69.5</b>	<b>71.8</b>
<i>Bulgaria</i>	19.4	19.9	22.4	20.3	51.4	54.2
<i>Romania</i>	*	30.2	*	21.4	*	41.0
Belarus	11.3	10.4	26.8	25.5	54.1	55.5
Moldova	32.8	27.5	12.7	13.1	48.5	53.7
Ukraine	21.8	20.3	21.2	19.1	50.5	54.2
Armenia	35.7	38.9	11.5	10.9	44.9	44.4
Azerbaijan	38.4	37.9	7.5	7.0	48.8	48.0
Georgia	53.4	53.0	6.2	6.7	36.2	40.3

\* lack of available data

Source: EUROSTAT Database

The structure of employment by sector indicates the gap between the EU – 27, the new member states and the eastern countries as concerns the development of the tertiary sector. Georgia, Armenia and Azerbaijan, as well as Romania, have less than 50% of their labour force active in services, the sector with the highest added value and the biggest salaries.

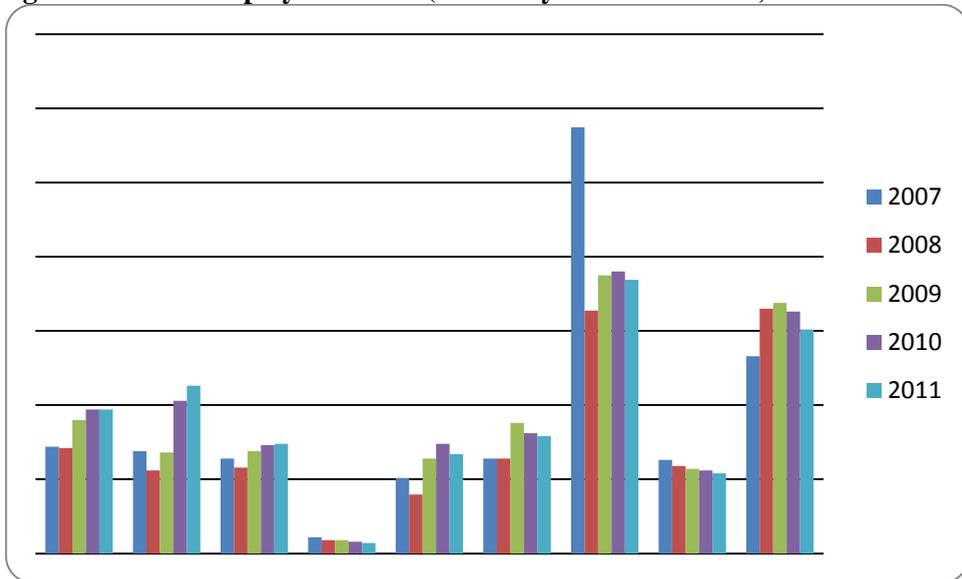
The large share of the active population in agriculture in Georgia, Armenia, Azerbaijan and Romania (over 30% of the total labour force) indicates the predominance of the rural landscape, but also the existence of an informal agriculture, based on the extensive model, and the chronic underemployment phenomenon.

### 3.2. Unemployment

The unemployment rate has been increasing at the EU – 27 level, reaching 9.7% in 2011, the maximum level in the last 20 years, as a result of the world crisis. In the eastern countries the impact of the crisis has been less severe, especially in Azerbaijan or Armenia, where the number of unemployed people has even decreased. Excepting Armenia and Georgia, with an unemployment rate of over 15% but relatively small job markets, the eastern countries have a very low unemployment rate, under the EU – 27 and new State Members level. This state of art can be explained by the increasing flows of workers from these countries that search for a

job abroad, the rate of informal employment in agriculture and by statistical data collecting issues.

**Figure 5. The unemployment rate (15 to 64 years - % of total)**

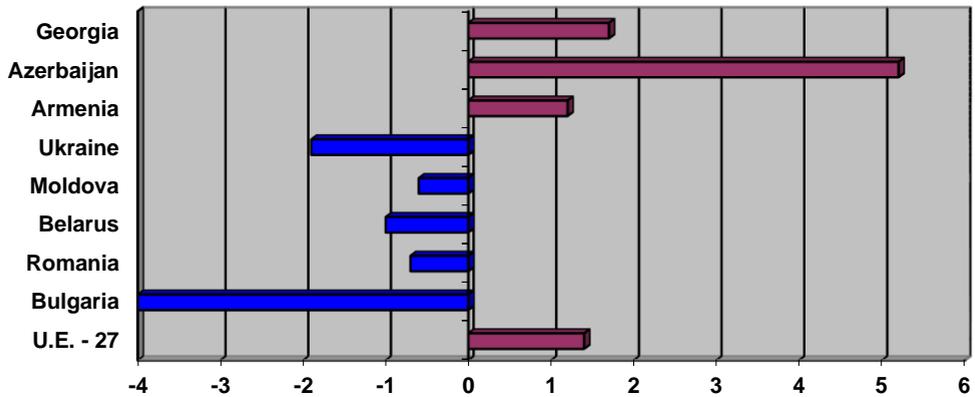


Source: EUROSTAT Database

#### 4. DEMOGRAPHICS

The total population of the EU – 27 area has continued to grow between 2007 and 2011, with 1.4%, peaking 502.3 million inhabitants, supported by the net migration and increasing life expectancy. The new member states, especially Bulgaria (-4%), reported a net loss of population, on both natural and migration causes.

As concerns the six countries in the Eastern Partnership area, there are two group of countries – Moldova, Ukraine and Belarus, facing a decreasing population, mostly resulting from the negative natural growth, on the one hand, and Azerbaijan, Armenia and Georgia, with a different demographic model, based on a higher birth rate.

**Figure 6. The demographic change between 2007 and 2011 (%), by country**

*Source:* EUROSTAT Database

All in all, the presumptive integration of these six countries in the European Union would add 75.6 million people to the Union, respectively an increase by 15% of its total population.

## 5. EDUCATION, HEALTH AND SOCIAL SERVICE

There is scarce statistical data concerning the social cohesion data for some countries in the Eastern Partnership. However, based on the set of available indicators, we can draw some conclusion:

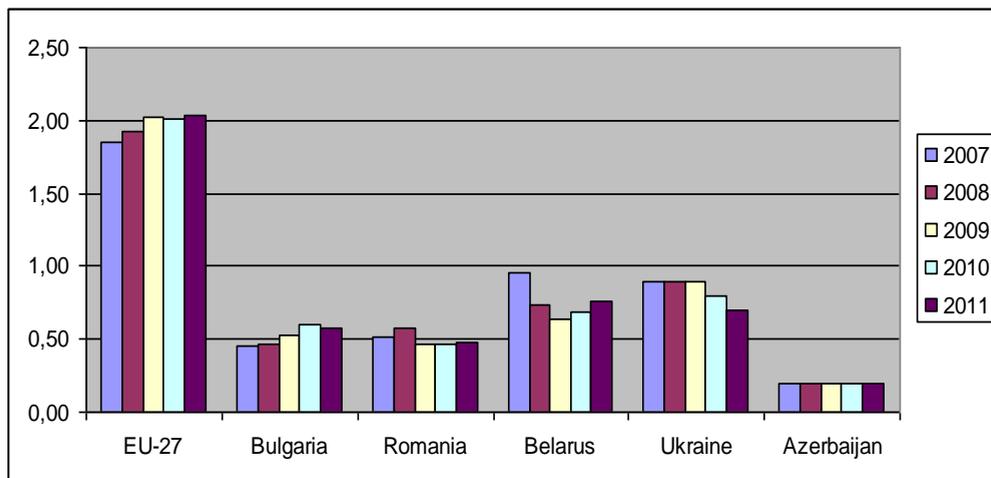
- the share of youngsters aged 20-24 having completed at least upper secondary education is bigger than the EU – 27 average in Ukraine and Azerbaijan, indicating the availability of numerous qualified workforce, a competitive advantage of these countries in attracting FDIs;
- the percentage of early school-leavers phenomenon is smaller in the eastern countries compared with the EU – 27 level, showing that the motivation to get a better education is still higher in less developed countries;
- the share of population at-risk-of-poverty is more than double the average of the EU – 27 State Members, especially in countries such as Armenia (54.2%), indicating the large dependency of the population on social transfers;
- the share of public spending on education in GDP is very high in Moldova (8.4% in 2011), against of an average of 5-6% in the Member States. However, countries such as Georgia, Armenia and Azerbaijan are investing less than 3% in education, indicating a chronic sub-financing of the sector, with negative effects on long term;

- the public health expenditure, as a share of GDP, is very small in Armenia and Azerbaijan (below 2%), creating difficulties of access to health services and resulting in a small life expectancy. However all the six countries have allocated more public resources for health in 2011 against 2007, also forced by the ageing population;
- the share of social protection expenditure is below the EU- 27, excepting the case of Ukraine, that is allocating around one third of its GDP for this kind of transfers.

## 6. RESEARCH AND DEVELOPMENT (R&D)E

In 2011, 2.03% of the EU-27's GDP was spent on R&D activities, almost one percent below the target of EU 2020 Strategy. The new Member States and the countries in the Eastern Partnership are allocating, at the moment, less than 1% of their national GDP for these activities, because of their scarce specialized infrastructure (science and technology parks, modern labs, technology transfer centers, etc.), but also because of the public sub-financing of the public R&D sector. This state of art results in a low competitiveness of the products and services generated in the eastern economies.

**Figure 7. Gross domestic expenditure on research and development, relative to GDP (%)**



\* No available data for Moldova, Georgia, Armenia

Source: EUROSTAT Database

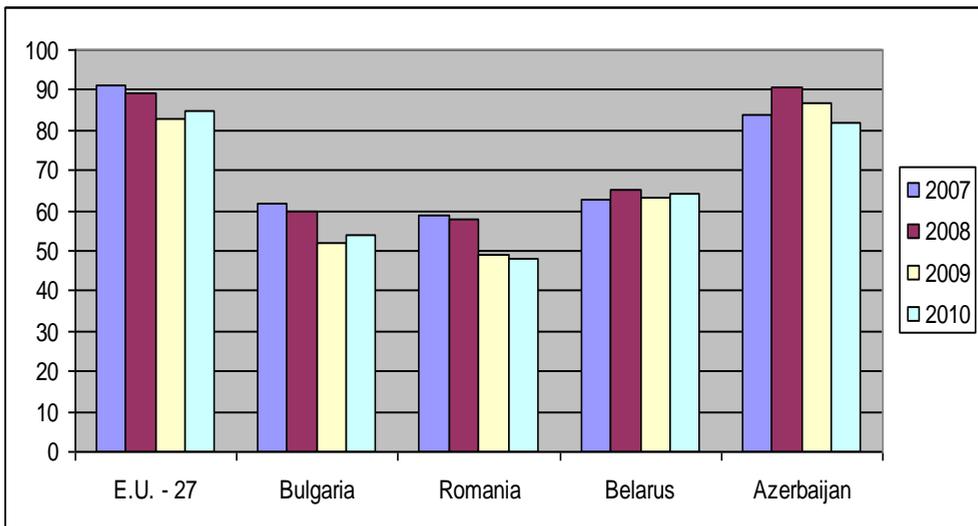
Belarus and Ukraine, together with Romania, have allocated less public resources for R&D activities after the crisis, mostly because of the shrinking budgets and of the increasing pressure on social transfers. However, the case of Romania, as new Member State, is surprising, considering the fact that it has benefited in the

2007-2013 programming period of significant EU funding for R&D activities. The impact of this extra funding has been however marginal, because of the low absorption rate (13.5% in 2013).

## 7. ENVIRONMENTAL ISSUES

The countries in the Eastern Partnership as well as the two states that joined the EU in 2007 have had a similar economic model, based on heavy industry, with extensive use of energy resources, generating also significant environmental issues. After 1990, the high energy intensity of these industries was one of the main causes of bankruptcy and restructuring, in the context of the increasing prices for fuels. Once the heavy industry dropped and the adoption of the environmental-related Community acquis by the candidate states, the greenhouse gas emission reached only around 50% of the previous quantity.

**Figure 8. The total greenhouse gas emissions (CO<sub>2</sub> equivalent (1990 = 100))**



\* No available data for Moldova, Georgia, Armenia and Ukraine

Source: EUROSTAT Database

Although the greenhouse gas emission have dropped against 1990, the energy intensity in the eastern economies is still significant higher (703 kg of oil equivalent/1000 EUR GDP in Azerbaijan and 426 in Belarus, compared with an EU – 27 average of 152 kg in 2010). This indicates that the production facilities in these countries will need further investments in increasing their energy efficiency, especially taking into account the deficit of fuels and their increasing prices.

## 8. EUROPEAN NEIGHBOURHOOD POLICY

As mentioned in the introduction, an important part of the European Union's external relations is represented by the cooperation between the EU and its six Eastern European partners. The centerpiece of the partnership is represented by the economic integration. Nevertheless, one should also have in mind the fact that economic reforms must be sustained by the political reforms (second EpA Summit in Warsaw, 2011).

The Eastern Partnership offers partners new contractual relations (e.g. in 2011, the negotiations on the Association Agreement with Ukraine were finalized and progress was made in the negotiations with other three countries in the region: the Republic of Moldova, Georgia and Armenia), deeper economic integration with the EU, strengthened energy security cooperation and enhanced mobility to people.

As concerns economic integration of the six partners in the EaP, an improvement could be noticed, in the sense that, in 2011, the EU continued negotiations with all EaP countries, except for Belarus, on Association Agreements and subsequently on Deep and Comprehensive Free Trade Areas. The macro-economic reform priorities identified in the European Neighborhood policy Action Plans continued in 2011 with the support of the EU macrofinancial assistance programmes through grants and loans given to the EaP partners (except for Azerbaijan and Belarus). The highest financial support was given to Ukraine, followed, at a great distance, by Armenia and Moldova.

EaP countries' participation in the work of the EU agencies and programmes gave them the opportunity to express their specific priorities and interests, and on the basis of their suggestions an indicative list of priority EU programmes for the participation of partner countries was established (e.g. Moldova was associated to the 7<sup>th</sup> Framework Programme for Research and Technological Development).

During the EaP Summit held in Warsaw in 2011, an Eastern Partnership Roadmap for 2012-2013 was agreed by the participants. The three main objectives established during this Summit take into consideration new and deeper contractual relations between the EU and partner countries, support for the mobility of citizens and visa liberalization and enhanced sector cooperation and facilitation of the participation of EaP countries in the EU programmes and agencies. The Roadmap translates the principle "more to more" into practice, meaning that partners that make more progress will get more support from the the EU, meaning increased funding for social and economic development, larger programmes for institution building, greater access to the EU internal market and increased financing towards investments.

## CONCLUSIONS

The Eastern Partnership countries are representing a market of over 75 million people, a size similar to the German one in terms of consumers. The six countries have a common social-economic background and similar problems to the ones faced by Romania and Bulgaria at the end of the 90s, namely a relative closed, energy intensive economy, depending on extensive imports of raw materials and resources from the Russian Federation, with scarce foreign trade outside the ex-soviet space, characterized by underemployment and low competitiveness, failing to fulfill the criteria of a market economy status.

After 2007, regardless of the harsh macro-economic environment, these emerging economies have performed better than the ones of the Union European, mostly due to their relative low level of openness to the external markets, but also to their competitive advantages (cheap qualified labour force, loose regulation, access to the Asian and Russian markets, the availability of natural resources, etc.). In this context, it is very likely for these economies to become a very attractive destination for outsourcing in search of cost saving, also from the new Member States. In the last years more and more companies from intensive-work sectors have migrated from Romania, Hungary, Poland etc. to Ukraine or Moldova. In this respect, the openness of these eastern economies towards the Community is expected to grow.

The countries in the Eastern Partnership are facing severe social problems – an ageing population, with limited access to health, education and social services, that the national budgets have failed to address until now, mostly because of the shrinking budgets and low administrative capacity. Considering also the fact that the real unemployment rate is much higher than the official one and the huge gap in wages, it is very likely for the labour force migration to Western Europe to grow fast once the barriers are gradually raised, the same way it happened with Bulgaria and Romania after 2000. This will feed the existing concerns regarding the unemployment phenomenon in the European Union, considering the fact that the percent of jobless is already around 10%.

The fall of the heavy industry, very energy-intensive in the communist era, has improved substantially the quality of the environment in Eastern Europe. However, the dependency on the national economies on the energy resources from the Russian Federation is a major concern for most ex-soviet countries (especially Ukraine) and can be diminished only by switching to an energy efficient economy and an extensive use of abundant renewable energy resources.

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# CONSEQUENCES OF THE ECONOMIC CRISIS FOR THE EUROPEAN UNION AND EASTERN PARTNERSHIP DEVELOPMENT. CHOSEN ASPECTS

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**Abstract:** *Article presents results of research on impact of current economic crisis on economic and social development of the EU, Central and Eastern European and Eastern Partnership countries. Research was conducted with a goal of defining changes in basic economic concepts, their directions, dynamics and character. Comparative analysis method has been used with the use of three groups of indices (macroeconomic, social and environmental), in line with the approach represented in major program document of the EU, i.e. Europe 2020 Strategy. This will progress researchers in answers to the crucial questions of “if” and “how” will the crisis impact implementation of the. Analysis concerns period of 2000 – 2008 and is based mainly on Eurostat data. As effect of the research on the development trends in the above mentioned three groups of countries, as well as comparison of size of these changes, categorization of trends and conclusions for economic policy will be possible. Conducted analysis will allow a definition of discrepancies in crisis mechanisms in various groups of countries as well as factors differing countries of Western, Central and Eastern Europe in this respect. Results obtained in this research may serve as a basis for good practices in counteractions towards economic crisis.*

**Keywords:** economic crisis, Eastern Partnership, Europe 2020 strategy, economic development

## INTRODUCTION

Article presents results of research on impact of the current economic crisis on economic, social and environmental development of the EU, Central and Eastern European Countries (CEEC) and Eastern Partnership (EP) countries. Research was conducted using comparative analysis instruments with a goal of defining changes in basic economic concepts, their directions, dynamics and character. Three groups of indices (macroeconomic, social and describing changes in natural environment) have been used in the comparison, in line with the approach represented in the major program document of the EU, i.e. *Europe 2020 Strategy for smart, sustainable and*

*inclusive growth*. This will progress researchers in answers to the crucial questions of “if” and “how” will the crisis impact implementation of the strategy (auxiliary goal of the research). Main goals of the presented research include: analysis of development trends in the three groups of countries, comparison of the scale of these changes and their typology.

Analysis conducted according to the above described pattern will allow a definition of discrepancies in crisis mechanisms observed in various groups of countries as well as factors differing countries of Western, Central and Eastern Europe in this respect. Results obtained in this research may serve as a basis for good practices in macroeconomic, social and environmental counteractions towards economic crisis, developed in further works.

## 1. ECONOMIC CRISIS – BRIEF CHARACTERISTIC

Occurrence of economic crisis, known from the past, belongs to the free market economy. After the Great Depression of 1930's, other significant for the global economy cases of crisis appeared in 1970's, the 90's and later in form of financial crisis in Asia and Russia. Nevertheless, world economy was constantly developing, even though the dynamics of changes of GDP in different regions was diversified, especially as compared to emerging and fast developing countries like China and India. Observed crisis mechanisms included disturbingly increasing level of public debt, changes in volume and geographic structure of world trade, intensified process of globalization, with especially dynamic changes in technological progress.

Crisis the world economy is currently dealing with, is connected with several overlapping processes. The recession observed in the world economy since 2008 sprang from the financial crisis, which in turn started in the mortgage market in the United States in 2007<sup>1</sup>. The crisis emerged from the mortgage subprime market, and further spread to other financial markets, and finally lead to an overall financial crisis in 2008 and 2009. As an effect of these problems in the banking industry and

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<sup>1</sup>M. Bukowski, K. Wierus, *Przyczyny kryzysu na świecie i w Polsce*, in: K. Piech, K. Wierus (ed.), *Ostatni światowy kryzys finansowy: przyczyny, przebieg, polityka, przedsiębiorstwa*, Instytut Wiedzy i Innowacji, Warsaw, 2012, p. 55.

The roots of the current global crisis are already quite well described in literature. Many authors point to mistakes in macroeconomic and regulation policy in the pre-crisis period, that caused economic overheating, emergence of imbalances, increased solvency, high property prices and banking sector expansion. All these factors created good conditions for business model oriented at profit maximization in short term, with the use of modern financial instruments (further in: J. Pruski, *Globalny kryzys finansowy: potrzebnow ychregulacji sektorafinansowego?*In: K. Piech, K. Wierus (ed.), *Ostatni światowy kryzys...*, op. cit., pp. 14 – 15; W. Szymański, *Kryzys globalny, pierwsze przybliżenie*, Difin, Warsaw 2009, pp. 117 – 118.

economic slowdown, various national governments undertook interventions in the free market economy. They were concentrated mainly in the area of new regulations, as well as intensive actions in monetary and fiscal policies. Such interventions in turn, caused threats to stability of public finance, mostly through increased liabilities both internal and external.

The crisis mechanisms that at the beginning concerned only the real estate market and banking sector started to cover other sector and even whole economies of countries and regions. Implied by the capital connections, the crisis process started to 'spill-over' with the collapse of banks bringing increased public debts, up to even bankruptcy of countries supporting their banking systems. As an effect, increased liabilities of nations was observed, called also a 'debt crisis'. As a consequence of austerity measures and weak economic growth, some countries started to have solvency problems. The processes of banking sector crisis and increasing public debt found their way in the overall real economy downturn and further, in macroeconomic crisis<sup>1</sup>. Therefore, especially among the European Union Member States, we can differentiate three types of crisis, i.e. banking sector crisis, debt crisis and macroeconomic crisis in the real economy.

The banking sector crisis caused by loss of solvency of commercial banks in the effect of assets and liabilities imbalance, in this case concerned both speculation bubble burst in the real estate market in the United States as well as mentioned before subprime credits, lead to collapse of banks in other countries. These events caused outflow of capital, limited credit action and hence, demand shocks all over Europe. Further governments interventions and their support for banks commenced in increased liabilities and deficits of public finance systems. The Euro-area countries were in especially troubled situation as they experienced excessive (over 60% of GDP) public finance deficits even before the crisis – effects of their fiscal policies, lack of structural reforms, etc<sup>2</sup>. Attempts to support the banking sector and increasing debts, as well as slow economic growth, contributed to further worsening of their situation. Processes of banking sector crisis, banks collapses, turmoil in the financial markets, weak credit action, all effected the real economy in the US as well as other countries. As early as 2008, slowdown in demand and economic growth was observed in developed countries. Economic downturn impulses were spreading to other national economies, including emerging countries.

Discussion over crisis mechanisms must also include their interactions and relations between specific factors<sup>3</sup>. The initial stimulus for the economic crisis was created in the American real estate market and concerned the banking crisis. Its deepening was caused by the public finance debt crisis. Simultaneously, decreasing

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<sup>1</sup> J.C. Shambaugh, *The Euro's Crisis*, Georgetown University, 2012.

<sup>2</sup> P. Albiński, *Trzy kryzysy w Unii Europejskiej – specyfika i wzajemne oddziaływanie* (forthcoming), Warsaw School of Economics, 2012, pp. 4 – 5.

<sup>3</sup> Ibidem, pp. 7 – 9.

internal demand and weak GDP growth caused significant drop of the bank assets value and further worsening of their financial situation. Therefore, the banking crisis contributed to growing public finance crisis. Both factors influenced negatively real economies, causing weaker economic growth, recession, increasing unemployment, decrease of production and foreign trade turnover. On the other hand, looking at the feedbacks between crisis mechanisms it is important to stress that the tougher economic situation of a country the harder it is to improve its situation in area of public debt and stimulation of consumption demand. Consequently, traditional possibilities of economic activity stimulation and overcoming the crisis, are melting.

The dynamics of crisis processes spread, their depth and simultaneous economic downturn, was differentiated throughout the global economy. Further part of the article will discuss changes in economic activity in the EU Member States as well as Eastern Partnership countries.

## **2. CHOSEN INDICES OF THREE GROUPS OF COUNTRIES – CHANGE IN THE TIME OF CRISIS**

Following chapter is an attempt of quantitative approach to the description of current economic crisis, its effect on various spheres of economy, and discrepancies in these mechanisms between different groups of countries.

In order to achieve the above stated goals, the countries in question: old EU Member States (EU-15), Central and Eastern European Countries (new Member States with the exception of Cyprus and Malta, i.e. EU-10) and Eastern Partnership countries (EP), were observed in the context of overall macroeconomic situation, social development and climate change.

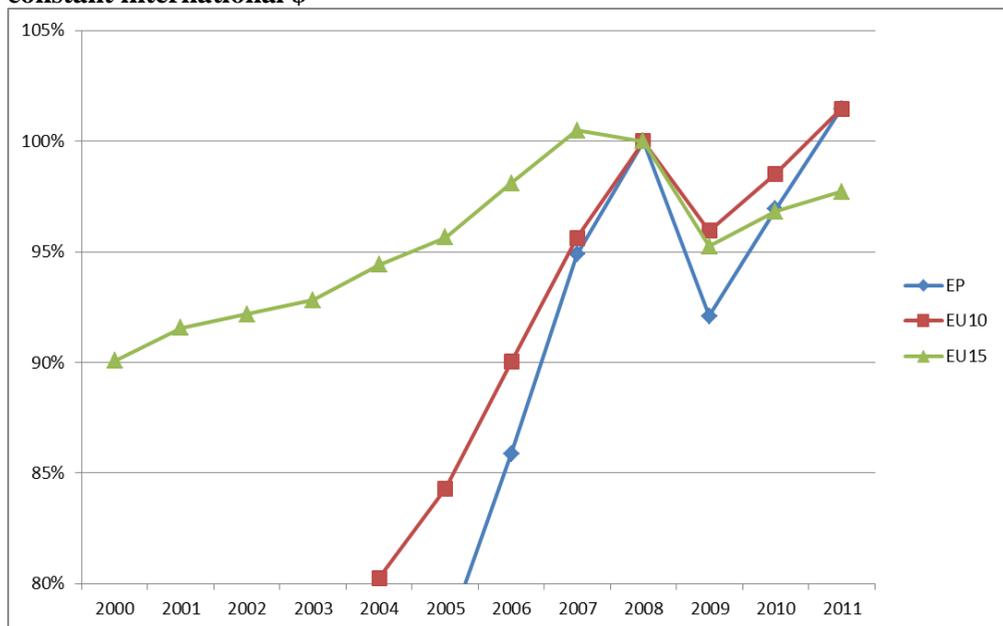
Data used for the quantitative analysis comes from the World Bank and Eurostat databases and were averaged using appropriate weights. Therefore, presented data does not reflect economic, social and environmental changes in any particular countries and may differ from observation of a single country. The assumption for this analysis is to compare groups of countries and make observations regarding patterns of development in regions; however, analysis of single countries might be an interesting explication of this research in form of case studies. Time series of the data include period of 2000 – 2011 or shorter if no data was available. Especially important for the presented research and its goals is the observed pattern of change before and after 2008 – the year when the current economic crisis stroke with the greatest impact and caused deepest changes in the economic cycle.

## 2.1. Overall macroeconomic situation

Indices describing overall development patterns in the economies include: GDP per capita (PPP), inflation rate, current account deficit as percentage of GDP, and values regarding structure of the economy, i.e. contribution of industry and service sectors to the GDP.

Figure 1 presents pattern of change of GDP per capita in PPP, as oppose to the value of this index in 2008 (2008 = 100%).

**Figure 1. Change of GDP per capita PPP index (2008 = 100), GDP in 2005 constant international \$**

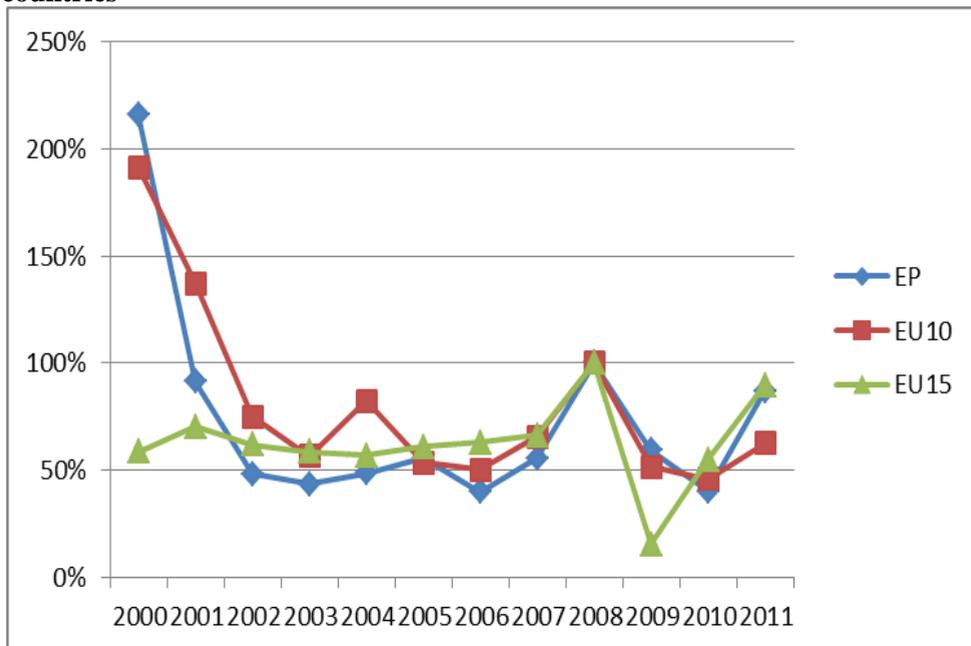


Source: own calculations, based on the World Bank data.

As shown in the graph, prior to 2008 all three groups of countries were developing with a steady pace, appropriate and corresponding to the stage of their economic advancement: emerging countries were observing faster growth, whereas developed countries were growing at a slowing rate. And in 2009, also all three groups of analyzed countries experienced drop in the level of GDP per capita, yet the scale of this change varied, with Eastern Partnership countries experiencing the most severe decline. Further development of this value change is also diversified, with EP countries and EU10 countries achieving pre-2008 levels in 2011 and EU-15 still lagging behind this reference value. This points to the interesting fact, that despite strength of the Western European economies, their access to rescue mechanisms and resources, modern structure of the economies and high level of trust

in their development from international community (including financial institutions), the pace of their post-crisis growth was slower than both in Central and Eastern Europe. This observation might lean toward a conclusion that fast recovery from an economic downturn may lay in other factors, not related to high level of economic development.

**Figure 2. Rate of inflation index (2008 = 100), GDP weighted for groups of countries**

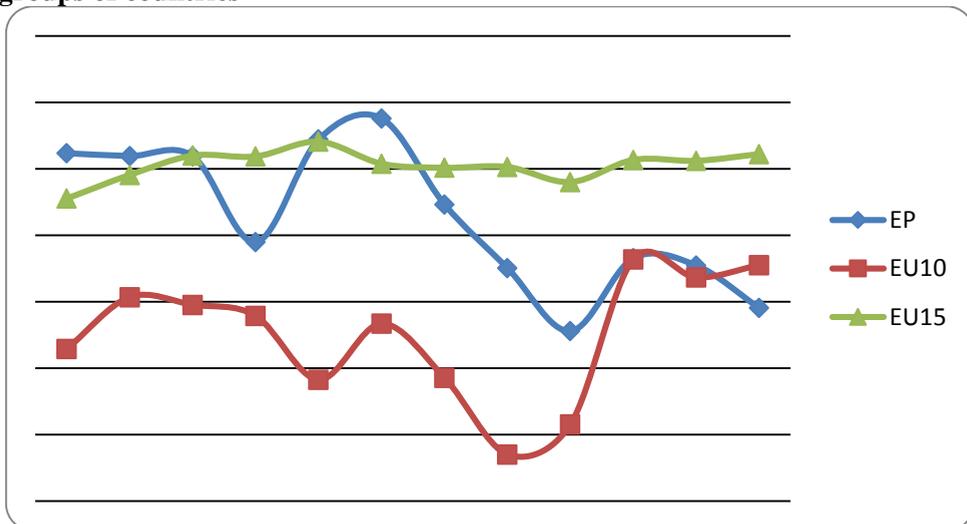


Source: as Figure 1.

Also interesting, non-intuitional conclusions brings the analysis of level of inflation (Figure 2). Values presented in the graph show steady and common for all three groups of countries increase of the inflation rate and its significant decline after 2008. Yet again, further development of the patterns brings different conclusions for different regions. Post-2008 change in inflation rate in EU15 countries was the deepest, obtaining level as low as 16% with 2008 = 100%. Both groups of Eastern European countries observed much less significant change with EU10 at 52% and EP at 59%. Following years, 2010 and 2011, brought steady return to pre-crisis values, yet the drop in inflation of EU15 in 2009, might encourage for further research. However, most probable reasons for such a decline is sluggish internal consumption in the EU15 countries, unlike in other analyzed groups. Rate of inflation at the level of 0.5% (GDP weighted average) might be therefore a sign of stagnation caused, among other factors, by low demand.

Another index bringing conclusion of significantly diversified responses of economies to the current crisis in the analyzed regions, is current account deficit as % of GDP (Figure 3).

**Figure 3. Current account deficit as % of GDP, GDP weighted average for groups of countries**

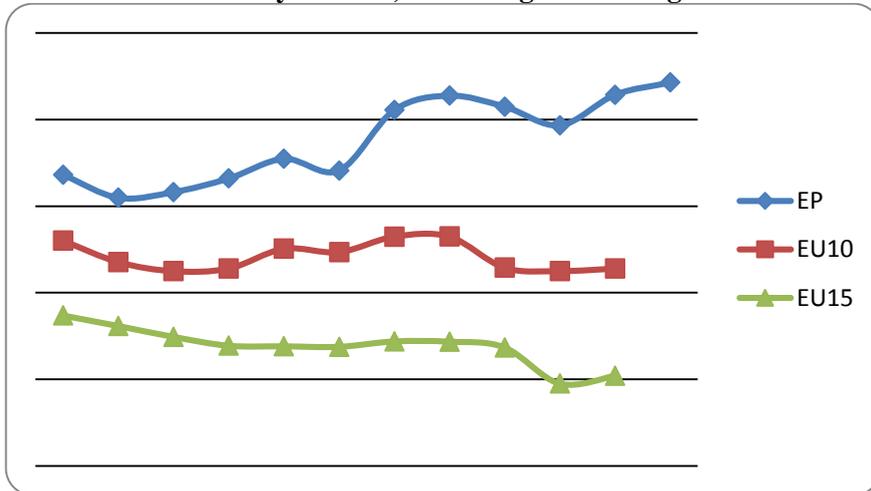


Source: As Figure 1.

Out of three analyzed groups, only EU-15 experienced surplus in the current account prior to 2008 (starting in 2002). The crisis year brought slight decline and even deficit of nearly -0.4% GDP (combined for all EU-15 countries). In the same period, both remaining groups experienced differentiated situation, with EU10 mostly in deficit and EP mainly with a surplus, which stabilized at 2009. However, the situation in EP and EU-10 cannot be treated jointly with respect to current account deficit, even though its level was nearly the same in 2009 (around -2.7% GDP). Yet, for Eastern Partnership countries this rate was a reversal from previous surplus, while for EU-10 it was a significant increase from over -8.5% GDP in 2007. This stabilization, in case of EU10, might be a result of some of the region's countries accession to the Euro-zone or participation in ERM, which forces member states to greater financial discipline (level of 3% GDP for current account deficit is one of the convergence criteria). Surplus of current account in case of EP is explained by economic situation of Azerbaijan, which has experience levels of over 33% surplus in 2008, at the time of oil-boom. Very specific, and different from other EP countries trends in this oil-based economy has distorted the picture for the whole region, as analyzed in this research.

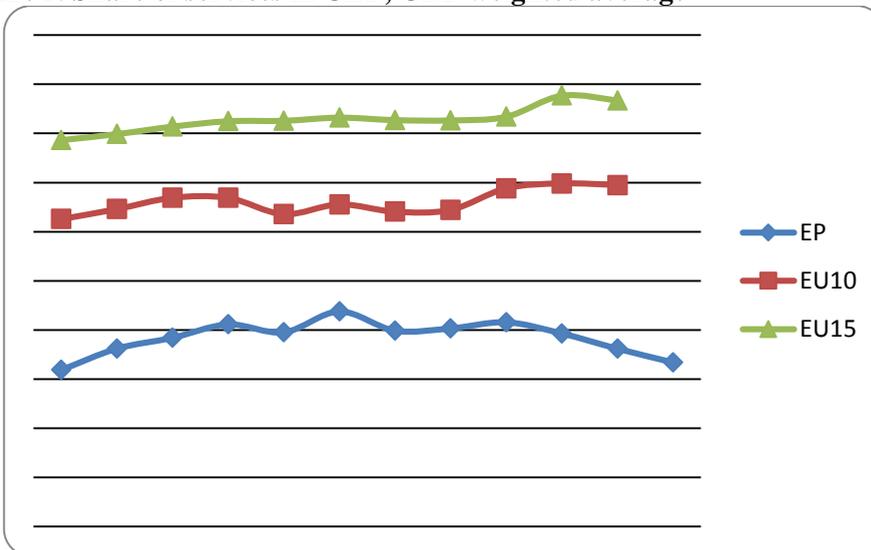
Analysis of economic structure, on the basis of industry and service sectors share in GDP creation (Figures 4 and 5), does not bring such vivid differences between regions in question.

**Figure 4. Share of industry in GDP, GDP weighted average**



Source: as Figure 1.

**Figure 5. Share of services in GDP, GDP weighted average**



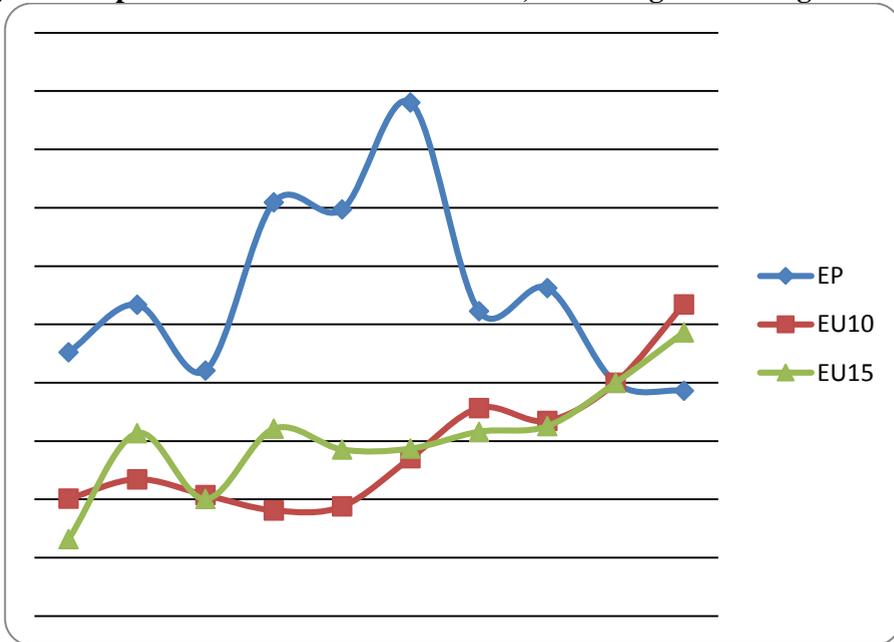
Source: as Figure 1.

The share of industry in EP's GDP is the highest in the groups observed in this research, yet it is characteristic to the level of development of emerging

economies. This proportion changed even more toward industry in the post-crisis period. On the other hand, one might ask a question of whether this specific structure of economy might not have been the root for weaker impact of the financial crisis in these countries. As noted on the example of above presented indices, crisis stoke EP countries with a smaller strength, also EU10 countries resisted its “congestion” to some extend; therefore, a hypothesis of more traditional economic structure (with higher proportion of industry and resource based competitive advantage) as root-cause of economic strength in time of crisis might be justified.

This hypothesis might be partly supported by observation of another trend in expenses development, namely expenditure for research and development (R&D, Figure 6).

**Figure 6. Expenditure on R&D as % of GDP, GDP weighted average**



Source: as Figure 1.

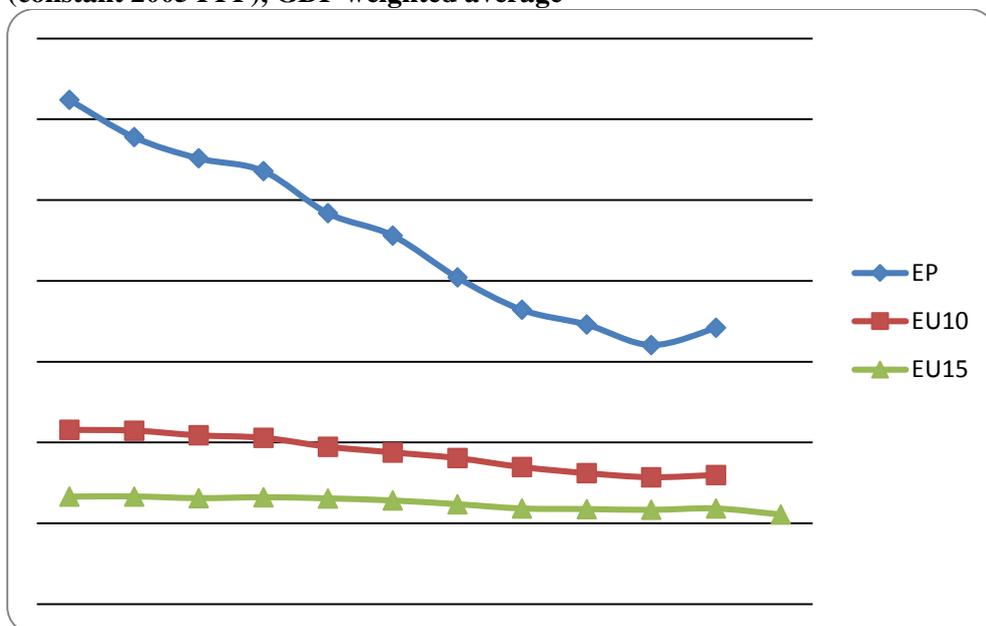
The graph presents the level of those expenditure as percentage of GDP, as compared to the year 2008 (2008=100). In case of EP this level has been dropping systematically from 2006, while two other regions experienced steady increase throughout the whole analyzed period, including post-crisis years. Growing expenditure towards R&D in EU Member States (both old and new) is most likely an effect of economic strategy undertaken by the EU (first – the Lisbon strategy, later – Europe 2020 strategy), with benchmarks in this regards being one of its pillars. In case of EP countries, observed significant decline in R&D expenditures

and their sensibility to economic cycle is again explained by the economic structure characteristic to emerging economies, especially those resource-based.

### a. Climate change and environment indices

Relation between economic growth rate and energy consumption is significant, but also well-known and deeply analyzed in the literature. Also our analysis (Figure 8) confirms economic downturn observed together with slower consumption for all three groups of countries. However, the energy consumption change in EP is much faster. As for EU15 – the significant drop in energy consumption in 2010 – 2011 may be explained by negative economic growth rate and overall weak situation of the economy.

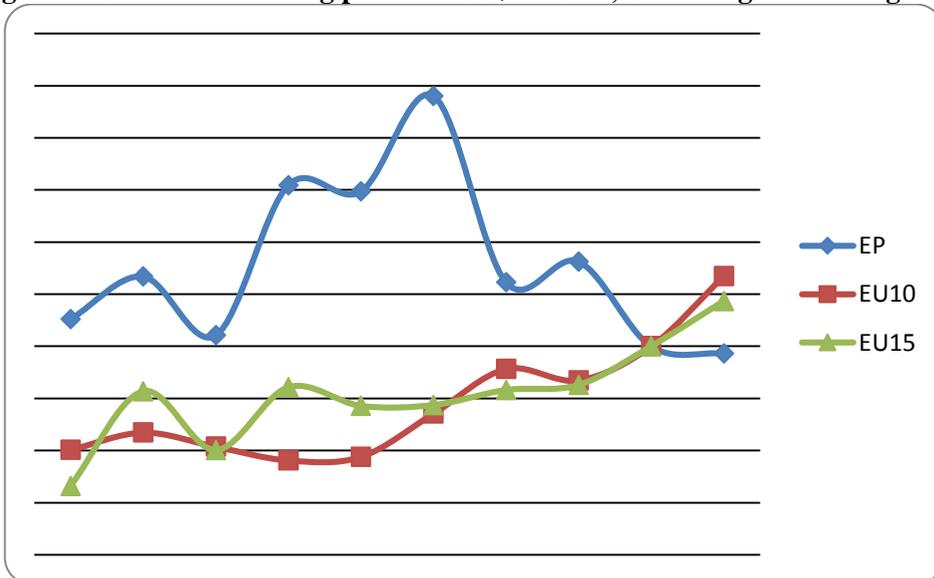
**Figure 7. Energy use in economy in kg of oil equivalent per \$1,000 GDP (constant 2005 PPP), GDP weighted average**



Source: as Figure 1.

Trends of development of CO<sub>2</sub> emission in both EU15 and EU10 were similar over the last decade, showing a slight increase. Also, the values achieved by the EP in this respect moved to similar levels, however for this group of countries it was a significant drop in the emissions. Taking into consideration a very tight correlation of volume of CO<sub>2</sub> emission with the volume of production, including high emission industries, this value was growing in the first period of the crisis, in 2009, and continues this trend, however this growth is faster in EU10 than in EU15.

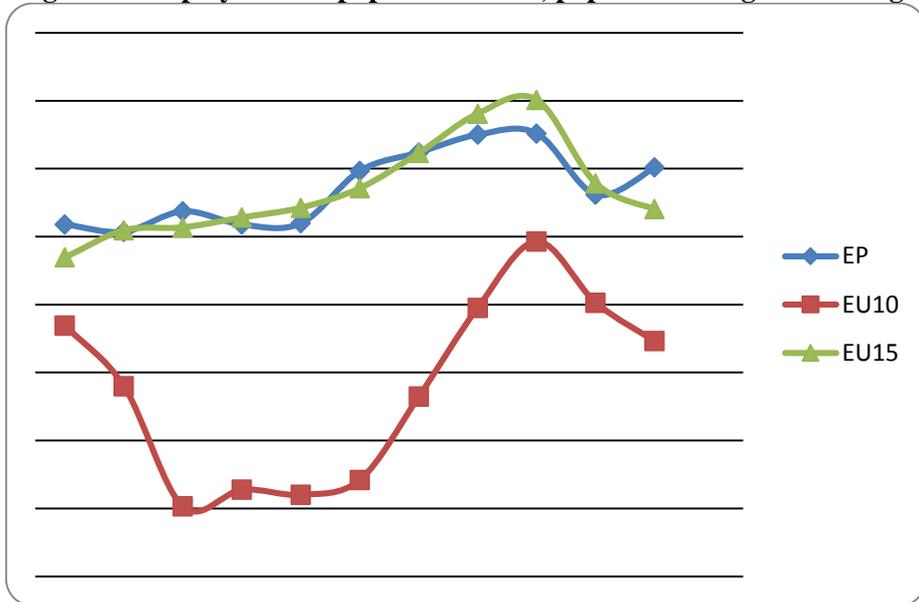
**Figure 8. CO<sub>2</sub> emission in kg per 2000 US\$ of GDP, GDP weighted average**



Source: as Figure 1.

### 2.3. Social situation

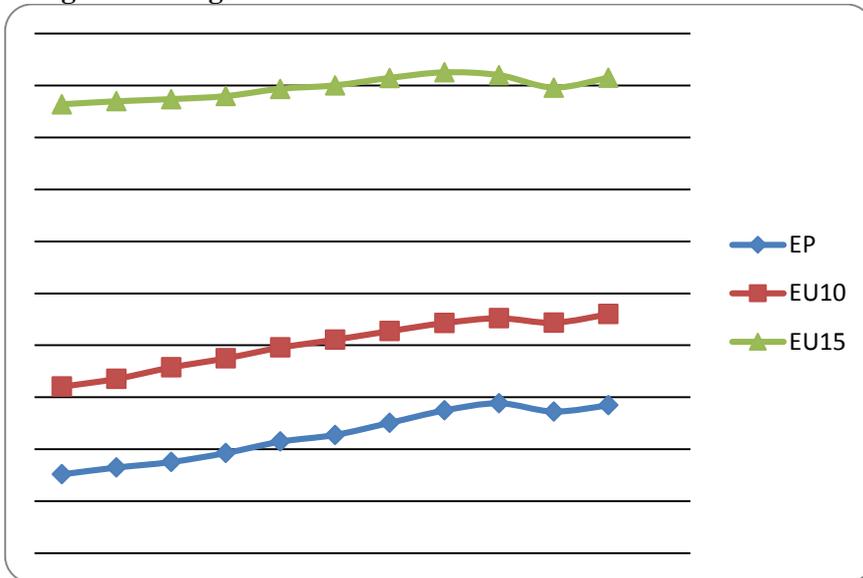
Rate of employment and employment related indices might be used as proxies for social impact of the financial crisis. This approach complies with the Europe 2020 strategy for intelligent, sustainable and inclusive development, with employment index as one of the leading benchmark.

**Figure 9. Employment to population ratio, population weighted average**

Source: as Figure 1.

Figure 9 presents changes in the rate of employment (weighted by population) for three regions. All three of them reported significant drops as an effect of the economic crisis, proving that the social sphere is highly sensible to the changes in financial and economic fields. Yet, observation of further (post-2008) development of the index in question bring especially interesting conclusions. Both EU member states groups (EU10 and EU15) did not manage to achieve 2008 levels, peak of the trend in both cases. The EP countries, after a short drop, recovered, observing growth in 2010. Interestingly, patterns of development of rate of employment in EU15 and EP, were nearly identical pre-2008. Strike of the economic crisis in 2008 exposed EP's economies ability to more flexible reaction to changing economic conditions, including the very sensible social sphere.

**Figure 10. GDP per person employed in 1990 constant US\$, GDP and labor force weighted average**



Source: as Figure 1.

Analysis of level of employment may be completed with labor productivity trend analysis (with GDP per person employed as a proxy, Figure 10). The trends are almost identical in all three groups of countries, and their levels comply with the levels of development of the economies in question. Such values (steady and identical) prove that the employment change (drop in EU and decline and further increase in EP) is not explained with changes in labor productivity. Therefore, the employment rate decline in the situation of crisis illustrates short-term adjustments on the cost-side of businesses. Absence of change in labor productivity leads to a conclusion that the traditionally assumed trade-off between employment rate and labor productivity did not prove right in neither of the analyzed regions. On the other hand, study of the European Union's economy (Berkeley, 2005) proves that the productivity of the labor force reacts to shock in employment in medium or long-run, furthermore, this reaction is of a very small extend (-0.1% of productivity rate per 1% of employment rate change). Therefore, the employment-productivity relation should not be considered a genuine trade-off. With regards to the crisis responses in EU and EP economies, observation may lead to a conclusion that employment rate drop and stable productivity of labor, brings a combined effect of competitiveness decrease. As shown in graph 8, EP countries and EU10 are dealing with this challenge faster, thus closing the competitiveness gap with the Western Europe (especially with their competitiveness stagnating or even decreasing) and the rest of the global economy.

Concluding the problem of quantitative analysis of crisis impact on the economies of three groups of countries (EU15, EU10 and EP), the data brings some interesting observation:

- Post-crisis recovery of the EU15 countries, illustrated by the GDP growth rate, is slower while EU10 and EP countries managed to obtain pre-crisis levels or considerable increase in short-term;
- Resistance to the crisis 'congestion' by EP and to some extent, also EU10, might be explained with less advanced structure of their economies, with greater proportion of GDP created by industry, therefore, greater foundation of GDP in real production and lesser exposition to advanced financial services;
- The change in employment rate of analyzed regions does not support traditionally assumed trade-off between employment rate and labor productivity. Despite significant decline of employment rate, GDP per person employed remained stable. Those two fact may bring a combined effect of loss of competitiveness in EU15 and closing of the competitiveness gap between analyzed economies.

### **3. FURTHER DEVELOPMENT PERSPECTIVES**

In the analysis and evaluation of changes of chosen basic macroeconomic indices, significant from their development tendencies estimation point of view, one important fact brings attention, i.e. differentiation between analyzed groups of countries. In cases of many proxies, their development proves that the observed changes are not short-term minor drop in momentum but a sustainable decrease tendencies. Such trends are mostly visible in the areas of employment and domestic consumption. Effect of productivity drop, as analyzed in previous section of the article, may have substantial and long-term implications for competitive position of EU15 countries. Another factor contributing to a slow recovery is a stagnating consumption, expressed in significant drop in inflation rate in the above analysis, which may start a disturbing tendency of depression and deflatory pressures. On the other hand, the CEEC and EP countries are challenged with environmental issues, posing a burden to their economic performance, as well as low level of innovation. With the low expenditures on research and development works and lack of mechanisms connecting research industry with the real economy, competitiveness of the region may be lost and the performance gap toward EU15 increased.

Taking into consideration interdependencies between banking, debt and real economy crisis, diagnosis of those mutual relations and feedbacks in every analyzed region may lead to crucial information regarding time and manners to economic boost and, consequently, post-crisis recovery. Even currently, mutual interactions and crisis mechanisms channels, prove the complexity of the situation. This raises the question of what factors might contribute to further development of European and other region's countries development in the post-crisis period. What will be the directions of global economy development and what new powers will force changes

in particular economies? Do any of them relate to a long-term socio-economic development strategy of the European Union included in Europe 2020: A strategy for smart, sustainable and inclusive growth? The Europe 2020 strategy is a program which, at the time of its adoption, assumed counteraction against development threats related to globalization, incentives to economic growth and competitiveness of the EU Member States, while at the same time taking care of more effective use of resources and dealing with ageing society and social exclusion. As an effect, these actions were supposed to encourage more intelligent, sustainable and inclusive growth. In other words, the growth projected in Europe 2020 strategy should be built on knowledge, research and innovation, low-emission economy, effective use of resources, competitiveness but also provide high level of employment and economic, social and territorial cohesion.

Table 1 presents data regarding changes in areas included in Europe 2020 both with the levels assumed for 2020 and current state of implementation in EU Member States, countries of Eastern and Central Europe, as well as Eastern Partnership countries.

**Table 1. Chosen indices of the Europe 2020 strategy**

	2008	2010/2011	Target 2020
Employment rate, aged 20-64 (% of population):			
EU-27	70,3	68,6	<b>75</b>
EU-10	66,7	64,8	
Gross domestic expenditure on R&D (% of GDP):			
EU-27	1,9	2,0	<b>3</b>
EU-10	0,83	0,88	
Greenhouse gas emissions (1990 = 100):			
EU-27	89	85	<b>80</b>
EU-10	68	64	
Renewables share of final energy consumption (%):			
EU-27	10,5	12,4	<b>20</b>
EU-10	13,9	17,2	
Energy intensity (kgoe/EUR 1000 of GDP):			<b>Improvement by 20%</b>
EU-27	167,4	168	
EU-10	162,0	159,8	
Early leavers from education and training (%):			<b>&lt; 10</b>
EU-27	14,9	13,5	
EU-10	9,1	9,3	
Tertiary education attainment, aged 30-34 (%):			<b>≥ 40</b>
EU-27	31,1	34,6	
EU-10	24,0	30,0	
People at-risk-of-poverty or social exclusion (thousands):			<b>20 million less</b>
EU-27	115,7	115,7	
EU-10	32,1	30,9	

Source: Own calculations based on: Eurostat, *Basic figures on the EU*, Spring 2012 and Autumn 2012 editions and Eurostat database.

Analysis of the data proves that the current crisis moves individual groups of countries away from the assumed quantitative goals. The EU-15 countries, at the time of the Europe 2020 strategy adoption, close to the assumed goals. However, for the EU-10 and EP countries they are still a challenge, even more so under the crisis conditions.

Apart from the quantitative analysis of the economic crisis impact on the Eastern Partnership, one important question needs to be asked. Namely – is the worsening or stagnating economic situation of the European Union going to influence the project of Eastern Partnership? Observation of EU responses to the current crisis proves that the discussion over common foreign policy has been ceased, which bears a threat to the development of Eastern Partnership initiative. EU Member States, especially EU15, are forced to undertake severe austerity measures and undergo painful adjustment processes, hence their approach toward broader integration, despite its long-term positive effects, might be biased by the crisis conditions. The economic stagnation or in some cases, even depression, is a crucial factor in any financial decisions of the EU, which was specially vivid in recent Multiannual Financial Framework negotiations. That might bring threat to further development of the Eastern Partnership. The question remains, however, is this going to influence the economic development of the six countries, given their dynamic growth and significant damage of Western European economies under crisis.

On the other hand, image of the European Union as a region of unthreatened wealth and stability was the first victim of the financial crisis. Therefore, also the Eastern part of the Partnership might not be so inclined to tighten their bonds with the European Union, at least until solid signs of economic recovery emerge. The pursuit of EU membership is also discouraged by high costs (economic and social) of economic and political structural reforms required prior to accession, which especially under a scarce 2014 – 2020 Financial Framework may not expect EU financial assistance. These factors may diminish Eastern Partnership's countries drive toward the EU and combined. The two forces, both effects of the current economic crisis – one coming from the EU austerity measures and the other from dynamic growth in EP as opposed the EU – might significantly the role of partners in the Partnership or reshape the models of cooperation.

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**Session IV: The consequences of the  
economic crisis on EU's  
competitiveness**

## ECONOMIC CRISIS IN EU COUNTRIES. A QUANTITATIVE APPROACH

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**Abstract:** *Geographical proximity had accelerated the negative economic contagion between states from EU space. All negative inputs could be viewed as system effects for the EU sustainable development and durability. In this context, the aim of this paper is to create an analytical framework for explaining the negative consequences for EU stability. This article uses a quantitative research design based on statistical correlations between economic variables, for creating an exploratory econometric model. We use several statistical equations and linear models (linear equations of regression) between economic liberty, GDP, macro economical indicators with a high level of probability ( 0.95) and significance ( 0.05). The methodology is focused on a case study for observing the impact of economic policies in two economic dimensions: fragile economies from Eastern Europe and development economies from Western Europe. Moreover, despite financial incentives, the current economic situation in the EU states calls for a new framework for action. This framework refers to a possible revision of the monetary union. According to representatives of the IMF, economic depression occurred in a context characterised by the lack of financial prudence. In this meaning, it has been proposed a number of measures to a series of changes in regulatory policy and supervision of financial markets.*

**Keywords:** economic crisis, EU countries, economic policies, GDP growth, governmental debt, banking system

### INTRODUCTION

The challenges from the global economic system, influenced by the new global economic order, require a kind of comprehensive research approach. Economic globalization has generated a new framework, based on the interdependence relationship between states. The increasing of financial liberalization, the development of capital markets and new economic powers are the main coordinates that characterize this "new economy". Recessive phenomena manifested at the end of the twentieth century announced the beginning of the "age of turbulence" in economy. The end of this growth cycle was evident starting with several systemic events like: oil shocks, the Mexican crisis, the crisis of Latin America, the Asian crisis and the artificial „ leverage effect” in US economy.

The beginning of the XXI-st century reflects a systemic economic crisis, with a large-scale multiplication effect, comparable to the Great Depression of 1929-1933 or with "Japan's lost decade." The event is quite "disturbing" and seemingly unpredictable, given that in the early of 2000s we had a lot of optimistic assumptions about overcoming macroeconomic imbalances. In this meaning, researchers and analysts like Robert Lucas and Ben Bernanke (Federal Reserve Chairman) were optimistic about the "taming" of economic cycles, "solved" by the economic science, with the birth of macroeconomics. This belief has been embraced successfully despite all negative inputs emphasised by Nouriel Roubini, Paul Krugman, Robert Shiller, and Robert Wescott. These perspectives have identified a number of unfavourable circumstances that could generate a new type of economic crisis.

### **1. "SUBPRIME" CRISES. THE SYNDROME "THIS TIME IS DIFFERENT"**

The economic crisis started in the U.S. in mid of 2007. This endemic crisis could be the "Second Great Contraction", as it was defined by Carmen Reinhart and Kenneth Rogoff. This event is in a contradictory direction with a series of phenomena that led the accelerating of economies in the 1980s: economic globalization, financial system stability or superior economic policies formulated. In this context, we are witnessing a decrease in confidence in the ability of free markets to generate growth and balance and strengthening faith in regulating role assigned to the state for managing the economic problems. In this meaning, the current recessive phenomenon presents a high interest and requires a deep analysis to identify the causes that had generated economic recovery and long-term stability.

The period that preceded the current depression was extremely fragile. Reinhart and Rogoff in *This time it's different. Eight centuries of financial folly* illustrated a quantitative analysis under economic crisis. They have reconsidered substandard credit crunch, which started in the U.S. in early 2007, from a historical perspective. In this analysis, the authors explained the correlation between banking crises manifested after the Second World War and the crisis of 2007. The international economic context set in the late of 1970s, has influenced the events from the beginning of the XXI century. In other words, these authors demonstrate that we are witnessing a "taming" of economic cycles but rather to an increased incidence of recessive episodes. These seizures (whatever their nature) have weakened global economy and outlined an extremely unstable framework, that would reproduce the phenomenon. In this framework we could identify several crisis episodes from financial liberalization and openness to international capital markets. (Reinhart, Rogoff, 2012, p.318). In the 1970s in economic history was recorded a recession episode manifested through the rising prices of oil products. In the early 1980s, global economies have faced many banking crises, situations of domestic debt default which have increased due to the collapse of market prices of goods. In this wave of recessions we can include both industrialized and emerging countries. We

underline, as a relevant example, loans crisis, which started in the U.S. in 1984, with the collapse of the investment fund LTCM (Long-Term Capital Management). After this event, the late 1980s, the Nordic countries have endured numerous banking crises due to massive capital inflows and rising prices in the housing market. Economic downturns accompanied the last decade of XX - th century, during which the phenomenon has spread and had a global impact. We try to remember the banking crisis in Japan, the crisis in Mexico and Argentina (1994-1995), the Asian crisis (1997-1998), the Russian crisis (1998), etc.

With a high level of statistical significance, the economic crises of 1970s-1980s were expected to become a kind of recurrent phenomenon. The vulnerability of economies worldwide, the increasing of sovereign debt, the collapse of prices, the inflationary phenomenon, and "overheating" are the basic coordinates that characterize the economies of the beginning of the XXI st century. The new economic crisis of 2007- present was built on similar scenarios like the main crises of the XX th century. We can observe an alternation of the phases of economic expansion with the phase of decline. As it was noted by the history of economic crises, each episode of recession, with global implications, occurred in a particular economic context in which there was a period of "euphoria and irrational exuberance". Euphoria led to the situation of "overheating" the formation of speculative bubbles. This context seems to be favourable for the "production" of the current economic crisis.

The current economic crisis has been prepared since the late '90s by the bursting bubble of the market of high technology. The development of technological capital generated, in the early of 1990s, the illusion of growth in the American economy. Consumer confidence in technology manufacturing firms and the exaggerated optimism in overcoming the economic recession have created the conditions for an early stage of economic imbalances. Thus, the interest of these corporations seemed to make a gain for the economy. This context has generated a kind of speculative "bubbles". Share price rise of the Internet and high tech companies was maintained by U.S. banks extremely loose, which provided favourable loans to all those who intend to invest in this market, considered to be an attractive economic market. In 1999, the shares of these companies "came to be quoted at a value 35 times higher than the benefits companies" (*Braun, Rallo, 2011, p 65*)

The increasing of the level of banks indebtedness led the collapse of thousands of Internet companies. However, all these actions haven't systemic effects. Thus the recession has been marginal and did not constitute an alarm signal for a global depression. Keynesian economist Paul Krugman has identified, in this recession, a destabilizing factor. This early alarm factor is the belief that "the central problem of depression prevention has been solved." (*Krugman, 2008, p.13*). To maintain the investor confidence the Federal Reserve has lowered interest rate and the access to liquidity. For a short term, this measure has led to rebalance economic situation. For

a long-term, this fact has sustained an "unhealthy" economic growth, which has prepared the space for further elements of recession.

## 2. A CAUSAL MECHANISM OF ECONOMIC CRISIS

The economic crisis that started in the U.S. had its origins in the monetary policy practiced by the U.S. Federal Reserve. The economic growth in this period preceded the crisis. The current crisis is a mix-up phenomenon based on the injections of liquidity and a mobilization of business capital in extremely risky speculative activities. We are witnessing of the creation of a speculative bubble in the real estate market. The real estate boom was maintained by banks through extremely attractive financial products. But all these financial products or derivatives had many risks. A product category of "toxic" financial products were "subprime loans". In this meaning could obtain a financial product without presenting proof of employment or income sources. All real estate loans were secured by the value of goods purchased. The easy accesses to the mortgage loans have generated the increasing of the number of borrowers and the effect of over sizing the prices of these assets. The property prices have seen an upward trend and their appreciation exceeds the level of 100% as Reinhart and Rogoff have analysed. Starting to these assumptions we can underline the fact that "during the first year following the crisis (2007), exactly the opposite happened: the dollar appreciated and interest rates fell as world investors viewed other countries as even riskier than the United States and bought Treasury securities copiously. But buyer beware! Over the longer run, the U.S. ex-change rate and interest rates could well revert to form, especially if policies are not made to re-establish a firm base for long-term fiscal sustainability." (*Reinhart, Rogoff, 2012, p.340*).

All banking institutions have used the same process of financial innovation. In this meaning, they have adopted a new business model, different from the classical model, which sought to implement the process of guaranteeing these "subprime" loans. Through "securitization" technique they have turned all these loans into bonds as CDO - Collateralized Debt Obligation. Through this practice, banks transferred loans to other financial institutions. The loans have formed the "work package". All loans had sold to other entrepreneurs in the form of bonds derived from secured creditors (*Krugman, 2008, p.192*). This "financial engineering" is not new, being practiced since 1970 by the National Association of State for Mortgages (Ginnie Mae). Thus, "some illiquid assets like mortgages could now be gathered together and transformed into liquid assets traded on the open market." (*Roubini, 2010, pp. 116-117*). This procedure has practiced by all banking financial institutions or government corporations (Ginnie Mae, Freddie Mac and Fannie Mae). These corporations have applied it outside real estate and the mortgage was extended in almost all categories of loans: consumer, education, finance commercial or public expenditures (*Roubini, 2010, p.119*). Besides this type of CDO bonds appeared

various "exotic" financial instruments called by various acronyms: CDOs, CDO squareds, CDSS, ABXs, CMBXs. All these techniques have generated an increase in loans to financial institutions.

Thus, we can speak about the development of a "shadow banking system". These new financial products, with a high risk level, have received top ratings from rating agencies (Fitch, Moody's or Standard & Poor's). Rating agencies have contributed to the diversification of "toxic" operations that would generate the decline of banking system. Overvaluation portfolios of bad loans by rating agencies relied on faith to maintain a high level of real estate prices. In the context of the collapse of real estate prices, credit rating agencies have acted in the opposite direction, relegating titles built on mortgage assets, while mistrust and panic spreading among financial institutions. This reassessment of the risk applied based mortgage securities issued resulted in a decrease in value of such securities and, consequently, a decrease in demand.

In 2007, the economic crisis has started with the increase in interest rates by the FED. The statistical indicators show that in this year is an increase in household indebtedness up to approx. 93% of GDP (77% representing only mortgages) and a decline in the saving rate from 18% (in 2000) to 13.6% (*Ball, 2009, p.13*). Boosting investment in the real estate market has negative effects in the real production. This has led to investors withdrawing from the market and the collapse of major financial institutions: Lehman Brothers (U.S.) or Northern Rock and Landesbank Sachsen (Europe). Lehman Brothers was considered the strongest investment bank on Wall Street. The fall of this financial institution in the summer of 2008 meant spreading panic among all investors from the international financial market. After six months, financial institutions became insolvent: May Fannie and Freddie Mac, AIG, Washington Mutual, Wachow, Fortis, Bradford & Bingley, Dexia, ABN-AMRO, and Hypo Real Estate (*Ionete, 2010, p.53*). The ceasing of interbank lending markets has led to the lack of liquidity in economic system. This fact was determinate by the establishment of a wave of distrust between financial and banking institutions. Banking has stopped lending to keep their cash in reserve. This move generated a further increase in the level of interest rates on the interbank market, which led to increased leverage. In this context, the spreading of panic in international financial markets and the systemic negative effects announced a deeply economic recession.

The systemic effect has led many economists to declare the failure of market and the negative role played by the economic globalization and financial deregulation in the current crisis. They have believed that financial liberalization supported by the Glass-Steagal Act had facilitated the development of speculative business. Although this belief is widely shared, we believe that the processes of economic globalization and financial liberalization have led directly to the outbreak and spread of the crisis, but they contributed rather to accelerate them. Given the depth of the phenomenon, we can deduce the complexity of the factors that contributed to its production.

Thus, we can identify a mix of variables: the expansion of bank credit, low interest rates, "subprime" loans as "NINJA" (No Incomes, No Jobs and Assets), "financial innovation" through "securitization", high quality certificates awarded by rating agencies of portfolios of assets, the lack of transparency of information transmitted on the market, moral hazard among financial market participants, the faith that "this time is different", and "irrational exuberance" of investors.

Although there are many causes that led the production and spreading of the current crisis, we believe that a destabilizing factor is the nature of economic policies ante-crisis and during the economic crises. First, we consider that flexible monetary policy, used by the central banks since 2001, have caused the consumption increasing, investment and unproductive indebtedness. These factors have shaped the unstable economic environment in which the "speculative manias" and financial innovations have emerged. Second, the economic policy supported by governments, as a crisis response, was not the best management act. This has emphasized financial imbalances. The sustaining strategies for financial institutions (banks, investment funds, insurance) through a permanent recapitalization have maintained the faith "too big to fail". The current economic crisis highlights the need of reconsideration of economic policies applied in the context of systemic imbalances.

### 3. RESEARCH METHODS

The paper tries to adequate the normative implications and perspectives in practice of systemic economic crises inside EU. In the context in which EU countries are characterized by several cleavages and instability, this research aims to emphasize the main directions of economic policies in Western and Eastern Europe. In this meaning our research objectives are: 1. to identify a statistical representative correlation between economic factors which could influence macroeconomic stability; 2. to analyze the dynamic of different economic policies in EU countries; 3. to compare and to create a theoretical framework for understanding the EU crisis dynamics.

The research questions of this study are: i) what are the basic features of economic crises in EU space? ii) what are the main explicative factors for economic instability in EU countries; iii) which are the possible solutions for ameliorate this phase of economic cycle? These questions are both normative and empirically, in this case our design of research focuses in two main directions- 1. a theoretical direction, in which we try to enounce several aspects of economic crisis and it's particularities in EU space; 2. an empirical analysis of the statistical correlations between the main factors which determine economic growth.

The main hypothesis of this research is:  $h_1$ : Governmental policies for economic stability generate unbalance of currency account, budgetary deficit and public debt. In addition to this research hypothesis we can underline that  $h_2$ : Geographical proximity and neighbourhood generate a high rate of imbalances contagion.

The aim of this paper is to observe, at empirical level, the main variables that explain economic crises. Starting with this point of view, this analyzes will be applied in EU members from different geographic position. Our research design is based on a longitudinal case study under EU countries. In this meaning our research analysis are represented by 27 countries which are members in EU space. Thus, this research uses a temporal series among 2007-2012. We try to investigate the dynamics of country economies during the current economic recession.

To the analytical level we use the following variables: X1-GNI Net; X2- GDP Growth; X3- Cash Deficit; X4-Central Governmental Debt; X5- Inflation Rate; X6- Current Account Balance; X7-Exports of goods and services; X8- Foreign Direct Investment and Economic Freedom.

Numerical values for each variable, except economic freedom, are calculated/estimated by World Bank data survey, and economic freedom is measured to the scale 0-10 by the Fraser Institute.

Our mathematical models are based on a basic statistics and also on regression models for understanding the main correlations and associations between variables.

Our exploratory model is based on linear and nonlinear regression with:

$$y = \alpha + \beta_1 x_1 + \beta_2 x_2 + \dots + \beta_n x_n + u, \text{ and}$$

$$\begin{cases} na + b \sum_{i=1}^n x_i = \sum_{i=1}^n y_i \\ a \sum_{i=1}^n x_i + b \sum_{i=1}^n x_i^2 = \sum_{i=1}^n x_i y_i \end{cases}$$

$$a = \frac{\sum y_i \sum x_i^2 - \sum x_i \sum x_i y_i}{n \sum x_i^2 - (\sum x_i)^2}$$

$$b = \frac{n \sum x_i y_i - \sum x_i \sum y_i}{n \sum x_i^2 - (\sum x_i)^2}$$

Starting with these statistical and mathematical tools, our research wants to explain the economic dynamics between 2007-2012 in different geographic area for understanding a general tendency in EU economy and the areas with a high level of economic risks. Our research strategy is focused on two levels: a descriptive level, in which we are interested to create a general tendency and a general view under the dynamics of economic indicators; an exploratory design based on the possibility of explaining economic growth in EU countries through governmental macroeconomic

policies. Statistical results and economic interpretations use comparative research method for observing several common or different perspectives in the management of the crisis in EU space.

#### 4. RESEARCH RESULTS

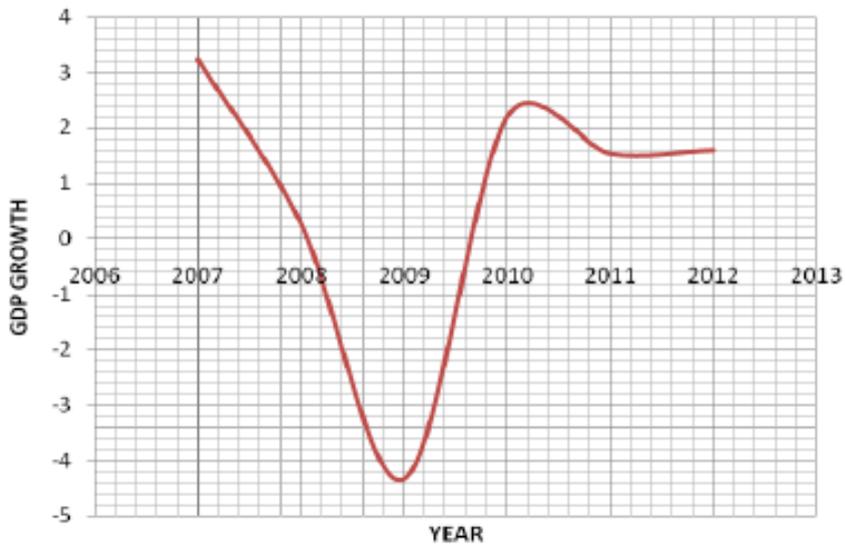
Starting from the methodological assumption, in this section we will introduce the statistical outputs under reality configuration, exploratory design and several estimative models:

**Table 1. Descriptive Statistics**

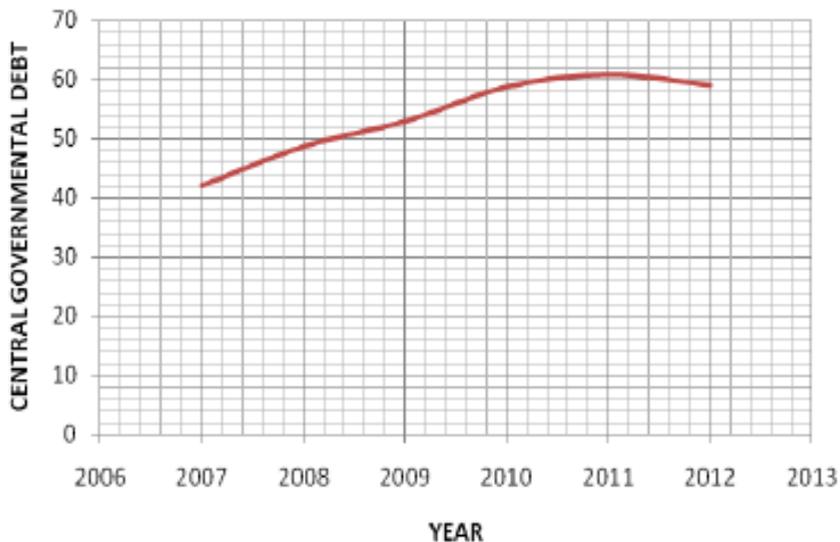
Descriptive	GNI NET	GDP Growth	Cash Deficit	Governmental		Current Account Balance	Exports	Foreign Investment	Economic Freedom
				Debt	Inflation				
Mean	34177.34	0.254313832	-4.18084355	56.01166857	2.6292767	-1875798756	40.13561	5.78725E-11	7.286
Standard Error	139.464	1.186035808	0.744988381	2.278627903	0.6012543	1551653972	1.035956	1.7645E-11	0.021587033
Median	34053.63	1.537268739	-3.74740948	58.71368276	3.1	-723828284.7	40.78701	4.10854E-11	7.27
Standard Deviation	311.851	2.652056691	1.665844662	5.095166887	1.3444455	3469603759	2.316468	3.94554E-11	0.048270074
Sample Variance	97251.05	7.03340469	2.775038437	25.9607256	1.8075336	1.20382E+19	5.366024	1.55673E+23	0.00233
Kurtosis	3.666088	3.582847126	-1.48018979	-1.060862426	-0.887881	0.029448104	2.478379	-2.047389869	3.970785979
Skewness	1.823058	1.877232125	0.154419153	-0.863728724	-0.547598	-0.858961451	-1.30398	0.6099984631	1.941863741
Range	799.0336	6.50923343	4.036408681	12.20808229	3.4026472	8851546587	6.221485	9.19984E-11	0.12
Minimum	33915.12	4.321575182	-6.00943727	48.62997344	0.7501492	-7071181181	36.34966	1.86681E-11	7.25
Maximum	34714.16	2.187658248	-1.97302859	60.83805573	4.1527964	1780365406	42.57114	1.10667E-12	7.37
Sum	170886.7	1.271569159	-20.9042177	280.0583429	13.146383	-9378993779	200.6781	2.89363E-12	36.43
Confidence Level(95.0%)	387.2142	3.292963314	2.068419343	6.326485288	1.6693495	4308082075	2.876275	4.89904E-11	0.059935213

Source: Personal estimation based on World Bank Data

In addition to central tendency we can underline that EU countries have known a very low rate of GDP growth during this recession. In this meaning the average of 0.25% with a standard error 1.18% demonstrate us a high probability for a GDP growth between [- 0.93; 1.43]. This value reflects a kind of borderline phenomenon with a constant level of economic recession. This result have to be placed in correlation with the rate of cash deficit of -4.18 and governmental debt of 56%. The standard deviations of 0.74 and 2.27 demonstrate a kind of stable negative economic development with a high probability level for negative values. In the graphics below we describe the economic variation of the main relevant variables.

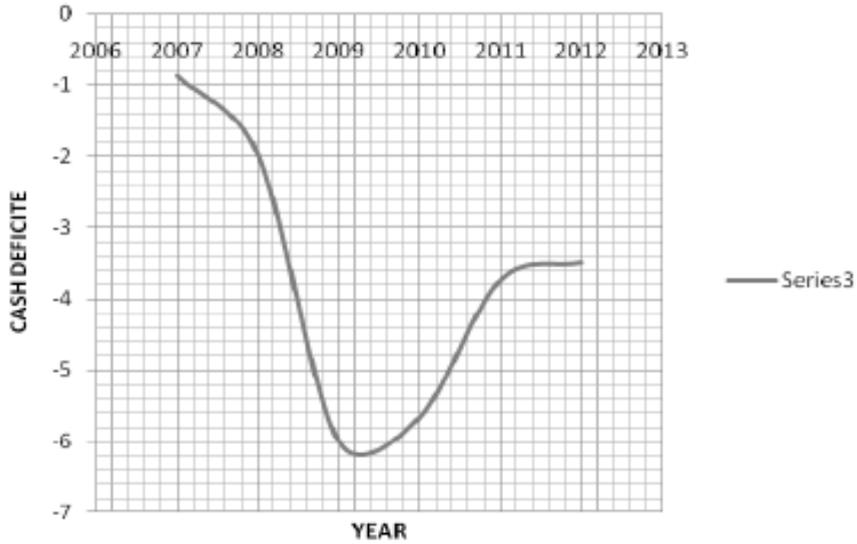
**Figure 1. GDP growth rate in EU 27**

Source: World Bank Indicator at <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>

**Figure 2. Central Governmental Debt in EU 27**

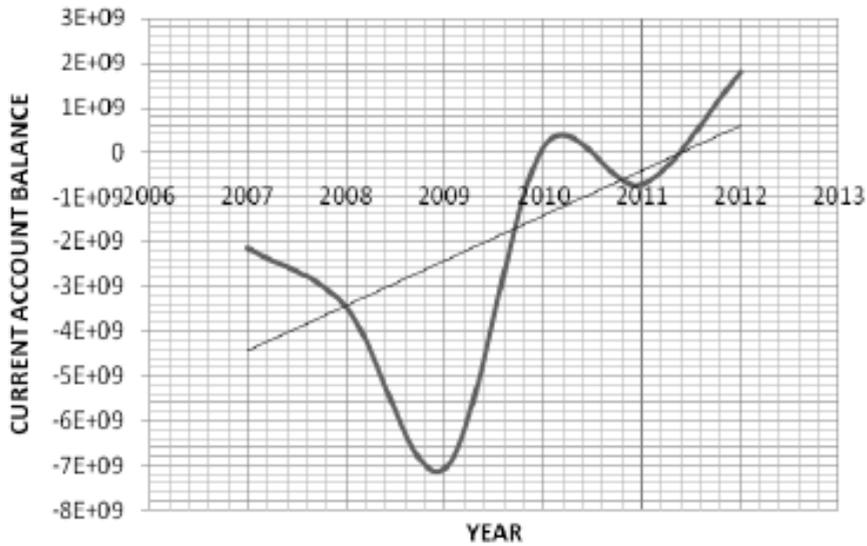
Source: World Bank Indicator at <http://data.worldbank.org/indicator/GC.DOD.TOTL.GD.ZS>

**Figure 3. Cash Deficite in EU 27**

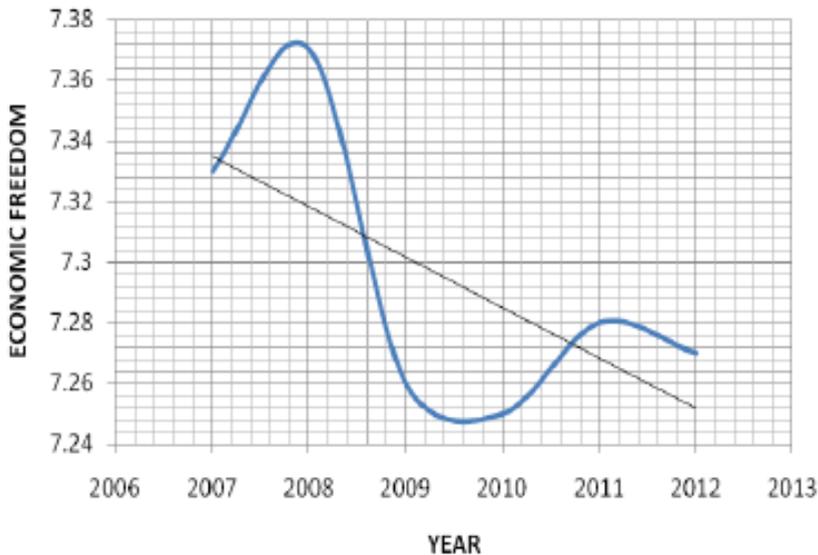


Source: World Bank Indicator at <http://data.worldbank.org/indicator/GC.BAL.CASH.GD.ZS>

**Figure 4. Current Account Balance in EU 27**



Source: World Bank Indicator at <http://data.worldbank.org/indicator/BN.CAB.XOKA.CD/countries>

**Figure 5. Economic Freedom in EU 27**

*Source:* Economic Freedom Network, Fraser Institute at <http://www.freetheworld.com/>

Quantitative descriptive results indicate a kind of model of crises in V. Both GDP growth and account balance confirm our theoretical interpretation. But, economic freedom associated with economic indicators reflects that a small level of economic liberty could generate a medium-high rate of economic disequilibrium. This work-hypothesis will be tested in an exploratory model based on several regression equations. In the tables below are introduced all statistical coefficients representative for our phenomenon. Thus, we can underline the fact that current account balance, cash deficit and exports of goods and services are relevant factors associated with economic growth. In this meaning all economic policies in EU countries for generating economic growth have the result: unbalanced current account a high level of cash deficit and a medium level of exports goods and services. On the other side, economic freedom is strong correlated with these explicative variables. Thus, a medium level of economic freedom, or a high level of governmental intervention on the market, generates cash deficit and the unbalance of current account. Our supposition is that governmental policies could deep the cleavages and instability during economic crisis

**Table 2. Matrix of linear Coefficients of Correlation**

		Correlations								
		GDP GROWTH	GNI NET	CASH DEFICIT	CENTRAL GOVERNMENTAL DEBT	INFLATION, CONSUMER PRICE	CURRENT ACCOUNT BALANCE	EXPORT OF GOODS AND SERVICES	FOREIGN DIRECT INVESTMENT	ECONOMIC FREEDOM
Pearson Correlation	GDP GROWTH	1.000	-.495	.567	-.052	.516	.805	.745	-.495	.2
	GNI NET	-.495	1.000	-.445	.542	.232	-.117	.060	.177	-.0
	CASH DEFICIT	.567	-.445	1.000	-.668	.687	.168	.454	-.289	.8
	CENTRAL GOVERNMENTAL DEBT	-.052	.542	-.668	1.000	-.031	.467	.319	-.709	-.7
	INFLATION, CONSUMER PRICE	.516	.232	.687	-.031	1.000	.443	.632	.044	.6
	CURRENT ACCOUNT BALANCE	.805	-.117	.168	.467	.443	1.000	.755	-.728	-.2
	EXPORT OF GOODS AND SERVICES	.745	.060	.454	.319	.832	.755	1.000	-.508	.2
	FOREIGN DIRECT INVESTMENT	-.495	.177	-.289	-.709	.044	-.728	-.508	1.000	.6
	ECONOMIC FREEDOM	.209	-.049	.839	-.717	.675	-.200	.248	.664	1.0
	Sig. (1-tailed)	GDP GROWTH	.	.159	.121	.461	.147	.027	.044	.159
GNI NET		.159	.	.188	.133	.329	.413	.455	.369	.4
CASH DEFICIT		.121	.188	.	.073	.066	.375	.183	.289	.0
CENTRAL GOVERNMENTAL DEBT		.461	.133	.073	.	.476	.175	.289	.057	.0
INFLATION, CONSUMER PRICE		.147	.329	.066	.476	.	.190	.020	.467	.0
CURRENT ACCOUNT BALANCE		.027	.413	.375	.175	.190	.	.041	.060	.3
EXPORT OF GOODS AND SERVICES		.044	.455	.183	.269	.020	.041	.	.152	.3
FOREIGN DIRECT INVESTMENT		.159	.369	.289	.057	.467	.060	.152	.	.0
ECONOMIC FREEDOM		.345	.463	.018	.054	.070	.352	.318	.075	.

Source: Personal Estimations

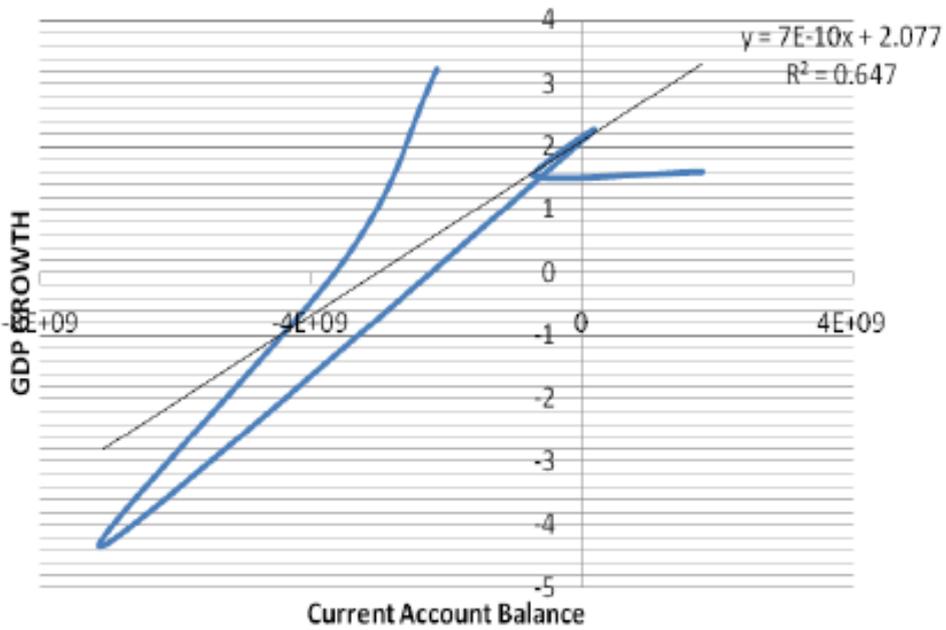
**Table 3. Model of Regression**

		Coefficients <sup>a</sup>									
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	-427.318	.000	.	.	.	.	.	.	.	.
	GNI NET	-.003	.000	-.867	.	.	-.495	-1.000	-.399	.212	4.719
	CASH DEFICIT	-1.518	.000	-1.146	.	.	.567	-1.000	-.237	.043	23.462
	CURRENT ACCOUNT BALANCE	7.409E-10	.000	.863	.	.	.805	1.000	.380	.194	5.164
	EXPORT OF GOODS AND SERVICES	.468	.000	.365	.	.	.745	1.000	.168	.213	4.706
	ECONOMIC FREEDOM	69.019	.000	1.211	.	.	.209	1.000	.286	.056	17.919

a. Dependent Variable: GDP GROWTH

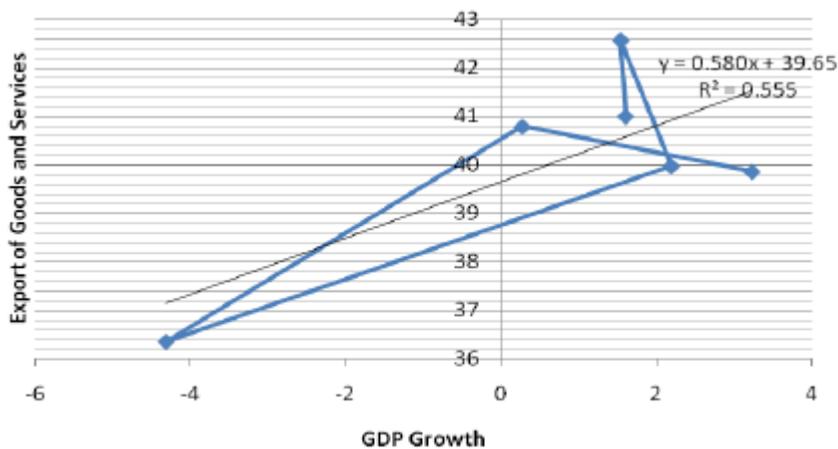
Source: Personal Estimations

**Figure 6. Correlation between GDP growth and Current Account Balance in EU 27**



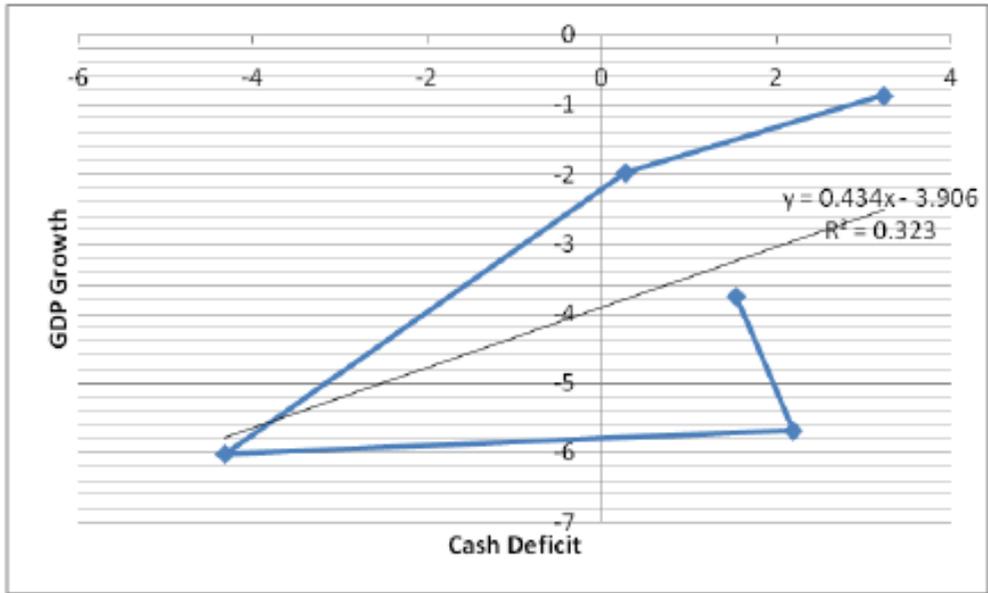
Source: World Bank Indicators

**Figure 7. Correlation between GDP growth and Current Account Balance in EU 27**



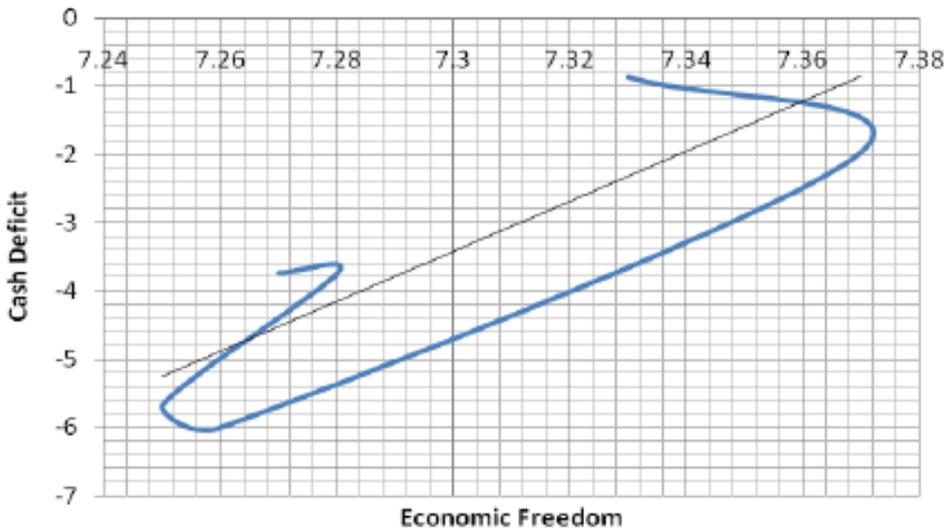
Source: Wo

**Figure 8. Correlation between GDP growth and Cash Deficit in EU 27**



Source: World Bank Indicators

**Figure 9. Correlation between Economic Freedom and Cash Deficit in EU 27**



Source: World Bank and Fraser Institute

The correlation matrix and the graphs of association reflect the dependence between GDP growth and current account balance or the rate of exports. In this meaning we can underline through the last figure that a medium level of economic freedom generates a high level of cash deficit. Through statistical correlations and regressions we can demonstrate our work-hypothesis. We can identify a classical model of economic crisis in which governmental intervention could be a kind of “catalyst” in maintaining economic instability. The price for governmental intervention is a high rate of economic deficit or public debt. For interpreting all statistical results in the following chapter we will emphasize the main political strategies in EU for economic recovery and their impact in the management of economic crisis.

#### **4. POST-CRISIS ECONOMIC POLICY IN EU COUNTRIES**

The systemic economic slowdown, which has affected both industrialized as well as emerging countries, led most governments to respond quickly in providing solutions to manage systemic macroeconomic imbalances. Typically, a crisis is accompanied by similar events. This is true in the current crisis, which although started with a banking crisis and was interwoven with a sovereign debt crisis or a currency crisis. Most countries have experienced profound imbalances relating to either insolvency or lack of jobs and decreased quality of life. Applied both in the U.S. state and the rest of the world, this strategy was focused on monetary policy injection for recapitalizing failing financial institutions on fiscal stimulus and public investment in order to improve the labour market.

In the current research we intend to analyze the economic policies in the EU countries. We want to answer to several questions: The economic crisis has affected the stability of the European Union? What is the impact of the crisis at EU level? What were the economic policies implemented after the crisis? Can we underline the economic convergence in EU in the context of economic crisis?

Despite all efforts to maintain financial stability and monetary imbalances, the EU experienced in 2007-2009 reflects a level of deflation and a high level of indebtedness. EU countries were concerned in finding solutions for the current crisis through implementing several reforms and economic recovery programs. In this meaning, members of the European Union have generated policies of monetary infusion for the banking sector. In most European countries - Germany, France, Austria, UK, Ireland, Benelux, Switzerland, Spain, Denmark and Sweden – we have assisted to capital injections. All these infusions are estimated at 360 billion Euro for recapitalize banks and a cash worth at 1,900 billion Euro, collateral for bank liabilities (*Lybeck, 2012, p.223*). In addition to these funds for bank recapitalization, all programs have been undertaken to stimulate jobs and small and medium enterprises through a series of tax incentives.

Germany's economic recovery programme had measures for small and medium enterprises and individual consumers. The plan was initiated to support the population through a programme generically called "Saving jobs by strengthening growth" (*Peicuți, 2010, p.110*). Keeping jobs, encouraging financing and credit lines for economic actors to the national economy and stimulating the significant project are the main directions for economic stability. A fund of 400 billion was provided to recapitalize banks and support, in order, to restore public confidence.

UK government has developed a program based on £ 50 billion for recapitalizing the banks. Financial Services Authority (FSA) has supported the National Bank of England's reserve fund to 200 billion pounds. British government has guarantee for banks and has established a program of 250 billion pounds (*Peicuți, 2010, p.113*). The British government has offered a package of incentives to support investments worth \$ 30 million investment in the technology and human capital to reduce taxes from 17.5% to 15% and the increasing the rate to 5% richest British citizens (*Voinea, 2009, p 57*). In the United Kingdom, as well as the other countries, we see an attempt to protect the banking structures and financial risk guarantee by government authorities. An example is the bank Northern Rock which was supported by monetary injections by the National Bank of England, the Ministry of Finance and the Financial Services Authority. Despite government efforts to stabilize the British economy, there was a loss of confidence of depositors in British banks. Perhaps the introduction of risk assessment mechanisms and identifying distressed banking institutions would be, at least, a technical solution to avoid injection practices in the financial market. The protection of these distressed financial institutions couldn't represent a way of economic recovery, but rather could contribute to the deepening of depressive phenomena. This solution may have a good effect on the short term (in the sense it restores confidence level), but on the long term, all market information couldn't led to economic stability. Economic growth wouldn't be a healthy one. Thus, we are witnessing of the formation of a new "bubble".

The monetary injection practices could be extended in the case of France. Since 2008 France has supported the recapitalization of domestic economic actors. In this regard, in 2008 the French company of finance the economy (SFPE) provided a number of advantages lending institutions and loans for up to 5 years to overcome the gap imposed by the current economic downturn. The peculiarity of such a policy is reflected by the policy practiced by the Central Bank of France. Central Bank of France has requested financial guarantee for all banking institutions. This could have a positive effect in the sense that banks will be able to identify those productive investments and the lending process will resume after their economic situation would allow. French crisis plan aimed the increasing of public spending through: public works (infrastructure upgrading road, rail), saving the automobile industry in France (with the obligation to produce new automobile engines in the country), construction recovery housing (zero interest mortgages), the development of social housing.

The Austrian area crisis action plan aimed to adopt a tax policy for reducing social imbalances. Austria faced an early stage of recession, but government strategies to encourage labour market generated an economic deficit of 3.9%, with 0.4% below the EU average. Austria has known phases of economic growth since 2009. In 2010, growth was at 3.2%. At the end of 2011 it started the process for economic recovery. Austria was the state least exposed to toxic assets, which has led to increased private sector investment and contributed to preserve jobs for the working population.

The former French President Nicolas Sarkozy raised the issue of a comprehensive response from Member States to the current economic crisis. In this regard, was organized a global summit (G20 Summit in Washington on 15-16 November 2008), which brought together both emerging and industrialized states and four countries known as BRIC countries (Brazil, Russia, India and China). German Chancellor Angela Merkel did not share the proposal of French President, considering that all the actions for reducing the crisis must belong to every government in accord to the specificities of each national economy. The financial plan was targeted following common measures: 1) the restore of confidence in financial markets (through cooperation between financial institutions and governmental actors); 2) remediation of toxic assets from financial institutions; 3) the injection of liquidity and capital (*Dolgu, 2009, p 36*).

Although governments have intervened in financial markets by adopting policies that unlock the financial system and restore confidence among investors, the answer to these incentives was not favourable. This raises a very important issue. Whether stimulus packages were not sufficient economic policies cannot stimulate economic recovery. These financial incentives will support the financial market and will avoid a blockage in the international trade.

Moreover, despite financial incentives, the current economic situation in the EU states calls for a new framework for action. This framework refers to a possible revision of the monetary union. According to representatives of the IMF, economic depression occurred in a context characterised by the lack of financial prudence. In this meaning, it has been proposed a number of measures to a series of changes in regulatory policy and supervision of financial markets. The changes are regarding both the hedge funds and private equity. The Basel III agreement signed on 7 July 2010 were initiated a series of measures to alter capital requirements and liquidity ratios in the financial sector. Thus, the new Basel III capital requirements are proposed to exceed 7% practiced in the context of crisis occurrence.

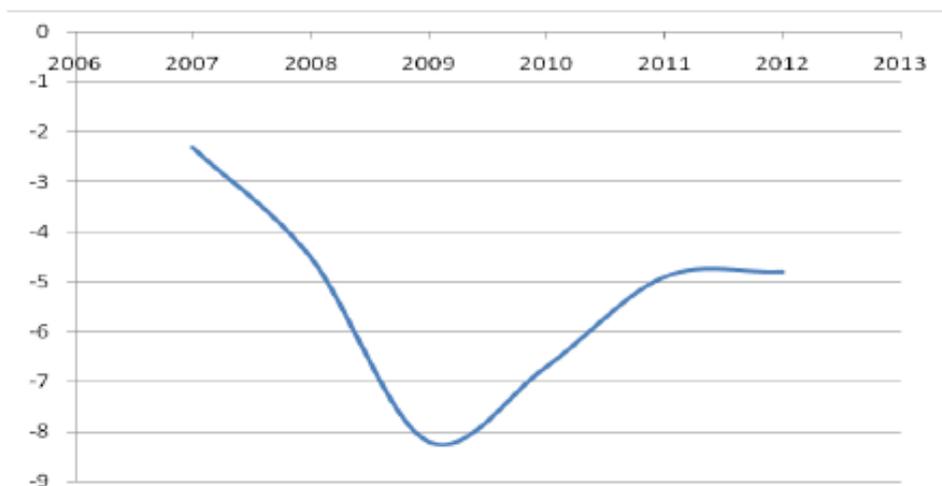
The economic difficulties from EU state reflect the deficit of European economic governance. The increasing of sovereign debt highlights the single monetary policy and the existence of imbalances in the EU (*Dăianu, 2012, p.61*). Economic imbalances have emerged an extremely fragile framework, in which the economic cohesion must be reconsidered. This becomes a turn point, given

that the Monetary Union creates a series of cleavages between the northern and southern states. Paul Krugman, in *Geography and Trade*, highlighted the risks arising from specialization according to comparative advantage in Europe, on the emergence of numerous tensions in the EU (Krugman, 1993, p.80).

In order for managing the crisis and for creating an economic framework, European Central Bank has proposed The European Financial Stability Fund. This fund would provide economic security among financial institutions and prevent the panic spreading. In this way, it supports "a permanent crisis mechanism to safeguard the financial stability of the euro area." (Dăianu, 2012, p.95). The existence of a permanent crisis management mechanism would contribute to maintaining the confidence in the financial market. Countries like Greece, Spain, Ireland, Portugal, and Italy faced with rising debt and ample economic and social imbalances. The deviant case was Greece, which entered into default status. The sovereign debt crisis in Greece is comparable to the famous "tequila crisis" in Mexico, 1994. These crises triggered deep within EMU have generated much debate in the European institutions. Among the issues discussed were two controversies: one concerns the need for an institution that has the status of "lender of last resort". A second aspect refers to the programs, shows Eurobonds in the Monetary Union to prevent speculative practices.

## **5. THE IMPACT OF ECONOMIC CRISIS IN EASTERN EUROPEAN NEIGHBOURHOOD**

If Western countries were more prudent, the eastern region required a high capital infusion for economic recovery. In this context, we refer to the monetary injections in Hungary, Romania, Bulgaria, Poland and Serbia, with the average more than 15.5 billion Euros for each state. The same strategy of monetary injection was continued by the World Bank for an amount of over 31 billion for the eastern systems. We can underline that that the policies of the European Commission did not bring an immediate revival of economic markets, but even deeper recession. The new Eastern members of EU had been let to develop their proper strategies in the management of economic crisis. This fact had generated a new set of imbalances for eastern countries. The magnitude of the budgetary deficit in Romania and Bulgaria reflects the stage of economic collapse. The main factors which had generated a high magnitude of budgetary deficit were: the lack of external financial support, the diminution of external free trade, and the lack of investors.

**Figure 10. The Dynamics of Cash Deficit in Romania**

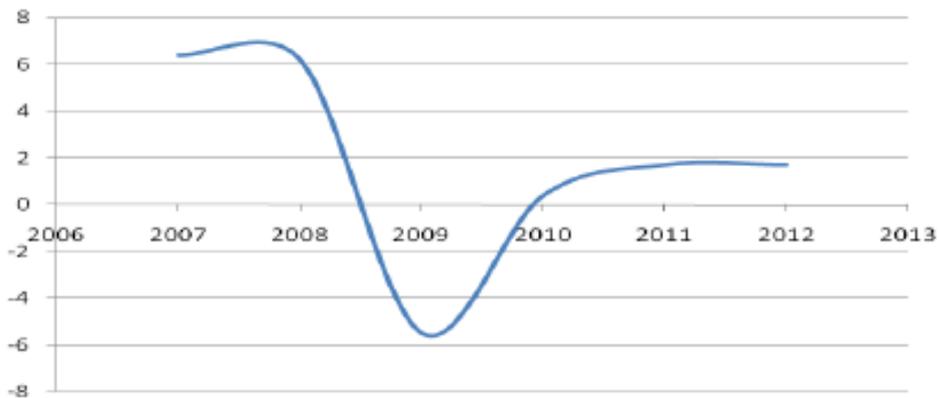
Source: World Bank, <http://data.worldbank.org/indicator/GC.BAL.CASH.GD.ZS/countries/RO-7E-XT?display=graph>

The crisis magnitude in Eastern Europe has negative values around -8% from GDP or -9% from GDP. The Romanian example, see figure no. 10, is almost representative for the negative economic dynamics. We can identify a classical V model of crisis in which the year 2009 represents the critical year for the economic crisis. Starting from these premises we can underline the fact that the economic crisis would be succeeded by a financial crisis. Opposed to the Asian economies, where we can meet a high savings rate, the Eastern European countries are dependent by the external finance (*Daianu, 2012, p. 150*). This dependence from external finance could be observed in the negative economic dynamics from Romania and Bulgaria. In Bulgaria we can observe a very high rate of governmental debt from 13.8% to 15%, in accord to official World Bank Data.

We can observe a small rate of variability for cash deficit in Bulgaria. The economic crisis affects with a medium magnitude Bulgarian economy. In this meaning we can underline the fact that maximum of cash deficit is -3.5% from GDP in the year 2010. Bulgaria has a good economic strategy, comparative with Romania, in maintaining to a medium level both governmental debt and cash deficit. In this context, Bulgaria has developed a fiscal discipline for reducing economic imbalances and the negative impact from the Balkans or Romanian economic crises. The Bulgarian economic crisis has developed in 2009 when it suffered a difficult economic start after the cutting of the energy supplies from Russia. We can observe a new strategy based on fiscal discipline promoted by the Finance Minister Djankov. This successful strategy placed

Bulgarian economy in the good way of economic stability and growth. From the empirical data, we can underline a small economic growth rate by 0.3-0.5% in 2011 and 2012. In this context the economic policies started by the government Boiko Borisov are quite efficient in maintaining economic “healthy” and creating the necessary premises for to join in Eurozone. Bulgarian case reflects the impact of the fiscal discipline promoted by governmental actors in economic recovery. Fiscal discipline could be seen as a “shock therapy” in economic stability and recovery. All governmental strategies promoted by Borisov and Djankov are described in the graph below:

**Figure 11. GDP Growth (annual %) in Bulgaria**

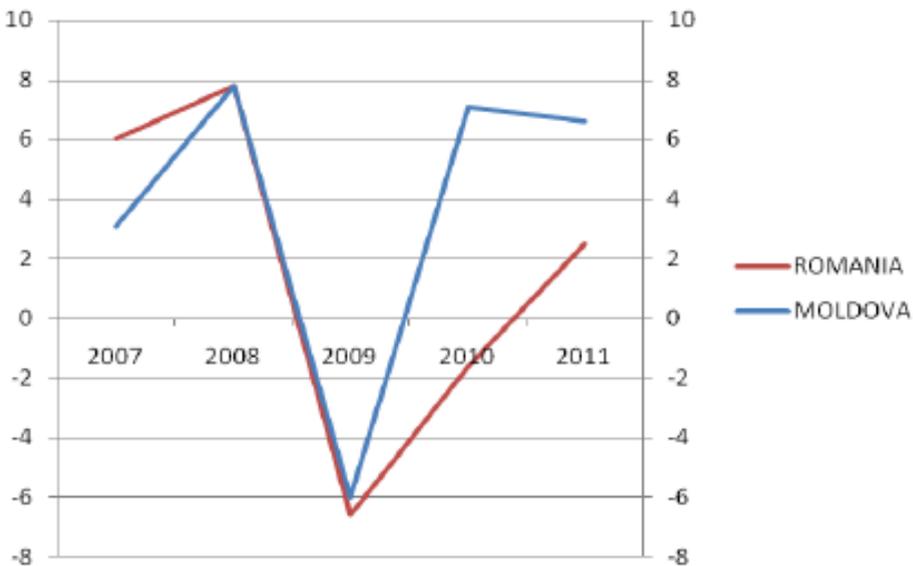


SSource: <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG/countries/RO-7E-XT-BG?display=graph>

If Eastern countries are characterised by a mix between efficient governmental policies and the lack of economic strategies, in this article we are interested to underline the negative effect of the crisis in EU neighbourhood. In this approach this research will focus on the negative impact of the economic crisis in Moldova. The economic crisis in Moldova is similar with Romanian crisis in the period 2007-2009. We can identify the same maximum negative moment (-6.0% and -6.6% from GDP in 2009). The period 2007 and 2008 is quite similar at the statistical level in GDP growth both in Romania and Moldova. The lack of investors, the high level of unemployment rate and the lack of fiscal discipline are the main vectors of the spreading of the economic imbalances. To the level of cash deficit we can underline the fact that Moldova has a small-medium rate of variability between 2007 and 2011. In this sphere, Moldova has values between -5.9% from GDP and -0.3% from GDP. Maximum level of cash deficit was -5.9% in 2009, with a rapid intervention on the market which have generated a medium growth rate of 2%. The impact of economic crisis in Moldova shows the weakness of national economy as in Romanian economy. In

both countries we can underline a high level of governmental debt and external imbalances. In this context we have several governmental errors in managing economy and financial flows. The high percent of public officials and the unsustainable growth generated by the banking system and banking credit are the main characteristics of Moldavian economy. All this features are the effect of the contagion phenomenon, a contagion from Romanian imbalances, and, also, a contagion from the whole UE27 economic market. The first step in reducing imbalances could be a good strategy based on the fiscal discipline and the reduction of governmental officials. These policies have to be correlated with a high level of economic freedom. In the graph below we can underline the GDP dynamics in Moldova and Romania.

**Figure 12. GDP Growth (annual %) in Moldova and Romania**



Source: <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG/countries/XT-MD-RO?display=graph>

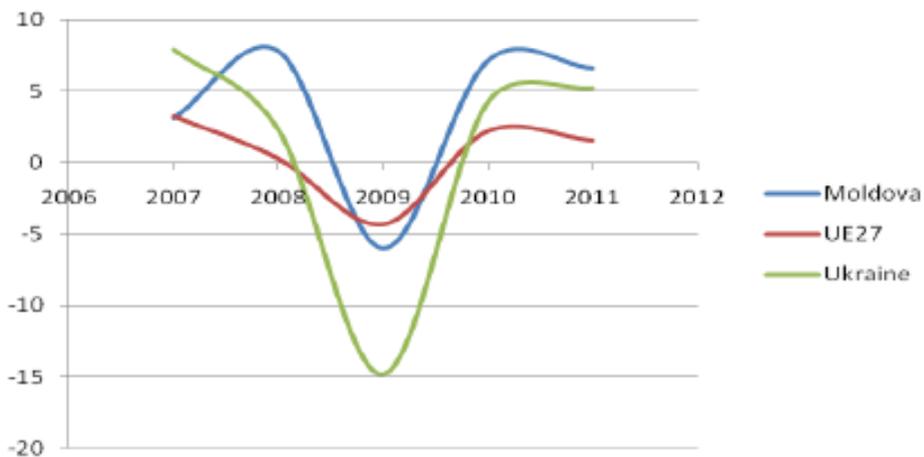
The empirical results reflect a high level of symmetry between annual growth in Romania and Moldova. Except 2010 and 2011 we can reinforce our work- hypothesis that geographical proximity or neighbourhood could generate the same economic process. In this approach we can identify a strong concordance between Romanian and Moldavian economy with a linear association  $r = 0.703$  and  $R^2 = 0.495$ . In this context the same economic factors have generated the economic crisis and have facilitated the spreading of this phenomenon. To the level of direct investment we can underline the same symmetry between Romania and Moldova. In 2009 both countries had a small

rate of net inflows which sustain the fact that the lack of investors is one of the main factors of the current recession.

The most affected country in the current economic crisis, from the Eastern EU neighbourhood, is Ukraine. In the year 2009 Ukraine has the worst economic growth rate -14,8% from GDP. We can observe the systemic effects of the crisis and the lack of governmental strategy in economic recovery. In opposition with Romania and Moldova, Ukraine seems to be a kind of instable economic system characterised by the lack of economic freedom and entrepreneurial strategy.

Despite the systemic effects of the current economic crisis we can speak about Eastern Partnership and Eastern good neighbourhood. In the context in which exists a free European market with several players, like eastern players we cannot eliminate the systemic effects of the economic disequilibrium. Thus, EU could be interested in reducing imbalances in Eastern countries and promoting several strategies for international development and assistance. All these strategies could have a positive impact in Moldova' economy, because Moldova was considerate a candidate for EU space. All negative systemic effects of the current crisis have affected the social structure of economy and the dynamics of governmental policies for economic recovery.

**Figure 13. GDP Growth (annual %) in UE27 and Eastern Neighbourhood**



Source: <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG/countries/>

Starting from the empirical data we can underline that „ before the crisis, the CESEE region was experiencing an economic boom with rapid GDP and credit growth, which in turn was driven by large capital inflows and benefited from strong global growth and easy global liquidity conditions. In addition,

strong economic growth in the region was supported by positive expectations of EU convergence and euro adoption” (*Gardó, Martin, 2010, p.41*). This fact was illustrated by the econometric models presented above, in which we can determine a high rate of GDP before crisis and a credit growth associated with capital inflows. In this context, the global partnership for economic assistance and the Eastern EU Partnership could be the external conditions for economic recovery in this region. Moreover, this fact could affect the new members of EU27 like Romania and Bulgaria.

Eastern neighbourhood is characterised by a significant decline of consumers’ expenses and the low level of economic growth. The main reason for which the Eastern European economies have known systemic effects is the lack of financial discipline and common governmental strategies for managing the imbalances.

We could underline the effect of financial globalisation or the effect of EU contagion, but, in practice, all the eastern countries are characterised by a high level of governmental debt and account deficits. The capital flows had improved economic indicators and had encouraged the expansion of the banking credit. All this perspectives are the main features of the boom of GDP and the main vectors of the current recession. Despite the geographical proximity we can identify the same pattern of consumers and the same post communist pattern in economic recovery.

## CONCLUSIONS

The U.S. economic crisis has a rapid effect of contagion in EU countries. This crisis has shown a fragile process in EU economy and the lack of European economic governance. In this sphere we can underline the classical cleavage between North and South countries. The North countries of EU, in comparison with South states, are characterised by economic stability and competitiveness. Greece, Spain, Portugal, Italy and Cyprus confirm this economic cleavage and the insufficiency of governmental policies for economic recovery. Also, we can underline the cleavage between EU 27 and Eastern Neighbourhood. The contagion effect is met in Moldova and Ukraine, where we assist to a high level of governmental debt and account deficit. This process could affect the EU Eastern Partnership, and could generate a new type of economic or social imbalances. All this cleavages from the common European Monetary space affects the economic convergence. This fact shows the lack of a common strategy for managing the crisis in EU space. We agree the idea of an European Stability Fund based on the financial solidarity between members. An institution like IMF in Euro space could be a reasonable solution for reducing imbalances. Another practical solution could be the emission of Eurobonds at the EMU. This solution could have political implication under state economic sovereignty. We can

underline that all political measures based on banking recapitalisation or monetary injections have determine a high rate of public debt. Governmental actions could be seen as a catalyst for maintaining economic instability. We agree and emphasize the idea of free market with a minimum of regulation in the banking “shadow” system. Minimum regulatory actions correlated with the resources of European free market, in a common national asset, could be a good strategy for stimulate the business sector of economy.

## ACKNOWLEDGEMENTS

"This work was supported by the European Social Fund in Romania, under the responsibility of the Managing Authority for the Sectoral Operational Programme for Human Resources Development 2007-2013 [grant POSDRU/CPP 107/DMI 1.5/S/78342]".

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# FERTILITY AND DEMOGRAPHIC POLICIES IN EUROPE

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**Abstract:** *Europe has seen in the recent decades a decline of the total fertility rate well below the population replacement level, thus leading to a decrease in the number of inhabitants and the aging of the population. The aim of this paper is to analyze the demographic policies of the EU Member States and to group these countries according to TFR, the number of infants and the existing population policy. In order to achieve these goals we employ cluster analysis. Our results suggest that the European countries may be grouped according to the chosen variables and that demographic policies exhibit many similarities. A future study will examine the influence of demographic policies on fertility and the intensity of the relationship between the abovementioned variables.*

**Keywords:** fertility, total fertility rate (TFR), demographic policies, new born, cluster analysis.

## INTRODUCTION

The total fertility rate is the average number of children that would be born alive to a woman during her fertile life (15-45 years). The replacement rate is the average number of live births per woman required to keep the population size constant if there was no inward or outward migration. The replacement level of fertility in developed countries is 2.1 children per woman.

During the last decades, the Total Fertility Rate (TFR) in Europe witnessed a decrease reaching a level below the replacement rate. In 2011, the TFR in Europe was 1.57 children per woman.

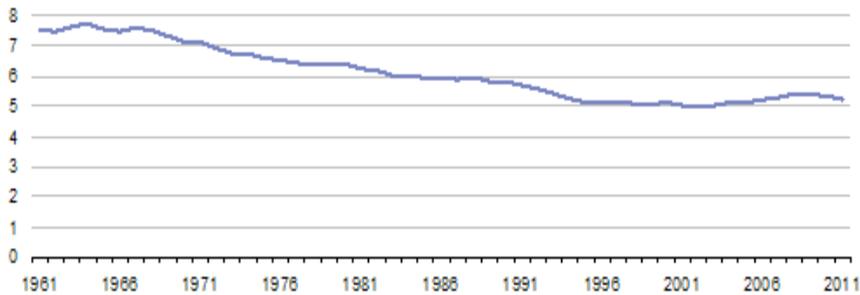
From the 1960's up to the beginning of the 21st century, the number of live births in the European Union declined sharply from 7.5 million to a low of 5.23 million in 2011 (Figure 1).

“The social policy for European Union does not include a specific strand for family issues. Policymaking in this area remains the exclusive responsibility of Member States, reflecting different family structures, historical developments, social attitudes and traditions from one Member State to another” (Eurostat, 2012, p. 129-130).

The fertility trend for European countries was studied by Frejka and Sobotka in 2008. They proved that the baby boom period (1950-1960) was followed by

motherhood delay, which lead to the decline of fertility in Europe (Frejka & Sobotka, 2008, p. 41).

**Figure 1. Live births evolution from 1960 to 2011**



(1) Excluding French overseas departments before 1998; provisional values for 2010 and 2011.

Source: Eurostat (online data code: demo\_gind)

There is a cultural division between the countries that have very low fertility rates (under 1.5 births per woman, like Romania, and countries where fertility is only moderately low (all the Nordic countries, all the French and Dutch-speaking European countries and all the English-speaking countries) (McDonald, 2006, p. 215).

McDonald concluded in 2006 that the focus of demographic policy should not be pro-natalist, but support for families with children, which means good family policy, good employment policy, good child development policy and good birth policy (McDonald, 2006, 213).

Public policies have an important impact on fertility, thus we cannot be sure which particular policies are successful, and which are not (Hoem, 2008, p. 256). The idea that pronatalistic policies could reverse the fertility decline is denied by the fact that such policies will not be accepted in modern democratic societies, in addition they are costly, inefficient and have little impact on fertility (Gauthier, 2007, p. 342).

Any action aimed at increasing fertility level would need to concentrate on increasing public resources for child-care services and to encourage the changes in the work place that could ease the situation of working mothers. Public policies such as those for job stability and affordable housing will have a positive effect on the fertility level (Fernandez Cordon, 2007, p. 65).

In Western Europe, governmental efforts to reverse the fertility decline have been generally implicit policy measures to steer family formation decisions with financial incentives or family-friendly facilities. Pro-natalist policies are less common in European countries. In the past they were widely implemented as part of

a strict procreative policy in the former socialist regimes of Eastern European countries (Kohler, Billari, & Ortega, 2006, p. 35).

The policy options available to European low and lowest low fertility countries are limited. The policy measures which may potentially affect fertility behaviour will manifest their influence only in the long-term. Kohler, Billari & Ortega concluded in 2006 that policy measures that aim to make women's participation in labour market compatible with raising children are among the most promising policies (Kohler, Billari, & Ortega, 2006, p. 42).

There are countries like France and the Nordic countries where TFR is around 2 and it is supported by consistent pro-natalist policies. The basic idea of these policies is to promote fertility not only by offering more money to the family, but also by deliberately maintained family culture by the state, yet developing such a culture requires time.

There is a correspondence between the economic support to families and TFR. In countries with great expense towards family care support, TFR is higher, except for Germany, Austria, Czech Republic, Slovak Republic and Hungary (Ghețău, 2012).

The demographic policies are also influenced by the European Neighbourhood Policy (ENP).

ENP was developed in 2003 and aims to prevent the emergence of gaps between the enlarged EU and its neighbours, giving the latter the opportunity to participate in various EU activities, through greater cooperation in the political, economic and cultural areas. It is based on the values of democracy, rule of law and respect of human rights and provides neighbours with technical and financial support.

The ENP framework is proposed to the 16 of the EU's closest neighbours – Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, Moldova, Morocco, Palestine, Syria, Tunisia and Ukraine. Relations with Russia are subject to a separate strategic partnership.

ENP presents significant economic benefits, which result in a fertility increase. To reach these benefits the EU's neighbours must:

- achieve and maintain macroeconomic stability;
- fight corruption;
- improve the educational system;
- trade liberalization.

## 1. METHODS

### 2.1 Variables:

This study is focused on fertile female population of 30 countries, both European Union countries and some of their neighbours in 2011.

The chosen fertility measure was the Total Fertility Rate and the number of living new born children. TFR indicate the average number of living new born per woman in her fertile life, calculated as the ratio between the number of new born children and the number of fertile woman.

Data were retrieved from EUROSTAT.

In European countries the demographic policies are focused on:

- Financial incentives like cash payment, baby bonus, maternity benefits, tax rebates, free education, free medical and dental services for children;
- Work and family initiatives such as paid parental leave, child care services, flexible working hours, gender equity in employment practices;
- Social policies that support children and parents like stable jobs for young men and women, safe environment for children (safe neighbourhood, playgrounds).

For demographic policies we focused on legality of abortion and on parental leave. These two variables are categorical and have three categories.

$$abortion = \begin{cases} 0, & \text{if abortion is legal} \\ 1, & \text{if abortion is illegal} \\ 2, & \text{if abortion is legal in special conditions} \end{cases}$$

*paid parental leave*

$$= \begin{cases} 0, & \text{if the paid parental leave is smaller than six months} \\ 1, & \text{if paid parental leave is between six months and one year} \\ 2, & \text{if the paid parental leave is higher than one year} \end{cases}$$

In Europe the parental leave is granted by legislation that differs greatly from country to country. The average period of parental leave in Europe is around eight months. The maximum duration of parental leave is granted in Hungary and Romania, where mothers can stay at home for up to two years. At the opposite pole are Belgium and Poland, where legislation does not exist for the period of parental leave, but there is a so-called "career break" during which mothers can stay at home for about three or four months.

Before the nineteenth century, there were no laws for abortion and, in 1869, Pope Pius IX declared that life occurs by conception. As a result, the laws of the nineteenth century did not allow termination of pregnancy. These laws form the basis of restrictive legislation on abortion, which still exists in many developing countries.

Between 1950 and 1985 almost all developed countries have liberalized abortion laws for safety reasons and due to human rights.

The number of abortions in the world is estimated at 50 million annually. In Europe an abortion takes place every 27 seconds, which means nearly 1.2 million abortions per year. One in five pregnancies ends in an abortion (18.5%). The five countries that hold the record for the number of abortions in Europe in 2011 are France (225741), the UK (202105), Spain (113,031), Germany (110431) and Romania (101915) (Eurostat, 2013). Countries where abortion is restricted are Poland, Ireland, Malta and Cyprus.

- Abortion is illegal in all circumstances, but is allowed only to save a woman's life in the following countries: Ireland, Malta and Poland.
- Abortion is illegal in all circumstances, but is allowed for financial and medical reasons in the following countries: Cyprus, Finland, Luxembourg and United Kingdom.
- In all other states from Europe the abortion on demand is legal.

### **Cluster Analysis**

Cluster analysis is a descriptive classification method which involves the identification of groups of similar objects. The purpose of the cluster analysis is to identify a set of homogeneous groups by grouping the countries so that we minimize variation within the group and maximize the variation between groups (Babucea, 2009, p.348).

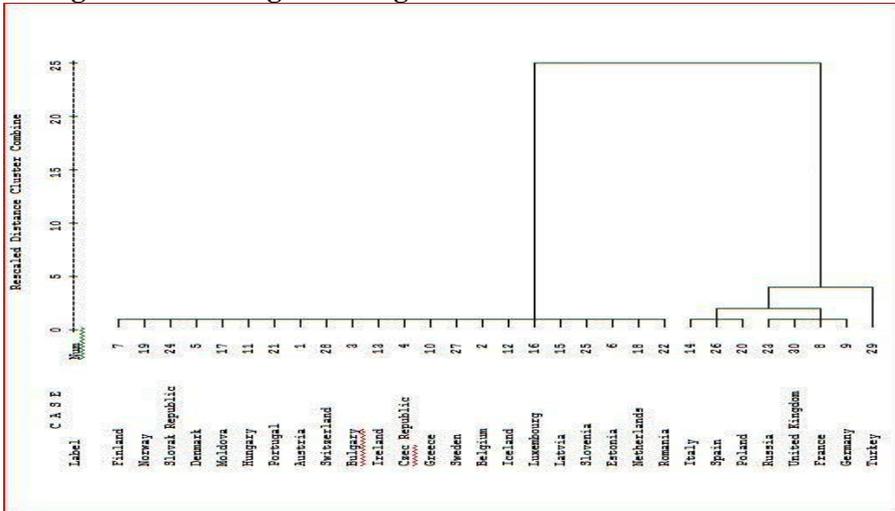
In this study the ascending hierarchical algorithm for classification is employed, which iterates the pairs of elements close to one another until a homogenous group emerges.

In order to group the countries, we will use the Ward method. This method is based on the least squares method. Ward's method selects clusters which minimize the sum of squares' errors.

We will apply the Hierarchical Cluster algorithm under SPSS for Windows to group countries of according to similar demographic policies and fertility in 2011.

### **RESULTS**

The distance employed is the Squared Euclidian Distance and for clustering we make use of the Ward Method, thus obtaining the dendrogram shown in Figure 2.

**Figure 2. Dendrogram using Ward Method**

Source: figure obtained by author data computation in SPSS

Analyzing the agglomeration schedule, depicted in Table 1 and the dendrogram shown in Figure 2 we conclude that countries aggregate at low levels between 0 and 5 and that the clusters aggregation is conducted at higher levels, namely 25. Differences are explained by using the Ward Algorithm meaning that the variation of each group must be as small as possible, while the inter-cluster variation must be as high as possible. Based upon the dendrogram, we can classify the 30 studied countries as follows:

- Class 1** consists of: Finland, Norway, Denmark, Moldova, Hungary, Portugal, Austria, Switzerland, Bulgaria, Ireland, Greece, Sweden, Belgium, Iceland, Latvia, Luxembourg, Estonia, Slovakia, Netherlands, Czech Republic, Romania, and Slovenia. The distances between these countries are small, hence they are relatively closed. The countries from this class, in 2011, have a small TFR, below the replacement level (Ireland has the maximum value of 2.05 children per woman and Hungary the minimum value of 1.23 children per woman), a small number of new born (Romania has the maximum value of 196242 children, even though the total fertility rate is very low (1.25 children born per woman) and Iceland has the minimum value of 4492 children, with a TFR of 2.02). These results may seem strange, but the explanation is simple, in Romania the number of women at their fertile age is higher than in Iceland, hence the total fertility is smaller in Romania.

$$\text{TFR} = \frac{\text{number of live births}}{\text{number of fertile woman}}$$

Also in countries from this class the abortion is legal, for pregnancies before reaching three or four months. There are some exceptions like Ireland where abortion is forbidden, Finland and Luxembourg where abortion is allowed in special conditions, especially if it saves the mother's life.

In these countries the paid parental leave is greater than one year. The longest paid parental leave is granted in Hungary and Romania (two years), but there are some exceptions like Switzerland, Ireland, Greece, Iceland, Latvia, Estonia, Netherlands and Belgium where mothers are allowed to stay at home for about three or four months.

- **Class 2** consists of: France, Germany, Italy, Poland, Russia, Spain, Turkey, and the United Kingdom. The countries from this class, in 2011, have an average TFR bigger than those from the previous class, but still below the replacement level. There is one exception, namely Turkey, with a total fertility rate of 2.13 children per woman, which exceeds the replacement level. The minimum value for this class, 1.3 children per woman is recorded by Poland. These countries have a large number of new born children (Turkey has the maximum value of 1278000 children and Poland has the minimum value of 388416 children). For these countries there is a direct link between TFR and the number of live births.

In countries from this class the abortion is legal, for pregnancy that has not reached three or four months. There are some exceptions like Poland and the UK where abortion is forbidden, except if it saves the mother's life.

In these countries the paid parental leave is shorter than six months. The longest paid parental leave is granted in the UK (10 months).

**Table 1. Agglomeration Schedule**

Stage	Cluster Combined		Coefficients	Stage Cluster First Appears		Next Stage
	Cluster 1	Cluster 2		Cluster 1	Cluster 2	
1	7	19	33543.001	0	0	2
2	7	24	381548.111	1	0	4
3	12	16	1039353.236	0	0	15
4	5	7	2372687.236	0	2	18
5	4	10	4892700.236	0	0	9
6	1	28	8535002.741	0	0	12
7	15	25	13408446.766	0	0	10
8	3	13	20643657.411	0	0	12
9	4	27	32513112.562	5	0	16
10	6	15	54226345.898	0	7	15
11	11	21	93007970.906	0	0	19
12	1	3	138038781.502	6	8	19
13	23	30	200166588.563	0	0	17

14	18	22	331095152.693	0	0	26
15	6	12	547151788.865	10	3	25
16	2	4	838840170.404	0	9	22
17	8	23	1163283944.771	0	13	24
18	5	17	1509928630.138	4	0	20
19	1	11	1866325931.455	12	11	20
20	1	5	3670214507.902	19	18	22
21	14	26	6562319966.403	0	0	23
22	1	2	12247538238.712	20	16	25
23	14	20	21873796172.216	21	0	27
24	8	9	38052114153.570	17	0	27
25	1	6	55641031105.203	22	15	26
26	1	18	83448725285.298	25	14	29
27	8	14	242202470285.905	24	23	28
28	8	29	595670912483.696	27	0	29
29	1	8	3045003201085.793	26	28	0

*Source:* author's own results

## CONCLUSIONS

The most important consequence of low fertility is the ageing of the population, with implications for the sustainability of the social protection system and the equilibrium of the labour market.

The fertility issue should be embedded in social policies as part of the sustained strategy.

We have employed cluster analysis for classifying the EU's countries and some of the neighbours (Russia, Iceland, Moldova, Norway, Switzerland and Turkey) depending on the total fertility rate, number of new born, abortion and parental leave duration. The procedure suggests two groups of countries using the Ward method. The variables "abortion" and parental leave from the study are indicators of demographic policies.

There is a class of countries with a level of fertility below the replacement level, characterized by a small number of new born, legal abortion, except for Ireland where abortion is forbidden, Finland and Luxembourg where abortion is allowed in special conditions, especially if it saves the mother's life, in these countries the paid parental leave is greater than one year.

Another class consists of countries with TFR around the replacement level, a large number of new born, legal abortion for pregnancies that have not reached three to four months (except Poland and the UK where abortion is forbidden if it does not save the mother's life), with paid parental leave shorter than six months. The

countries from this class have a TFR around the replacement level and are mostly developed countries, from the Western Europe, except for Russia and Turkey.

This study does not examine the influence of demographic policies on fertility and the intensity of the relationship between variables.

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# ENTREPRENEURSHIP, INNOVATION AND PUBLIC SECTOR PERFORMANCE IN THE 27 EU COUNTRIES

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**Abstract:** *Since the entrepreneurial and creative spirit function plays an important role not only in private business but also in the public sector, this paper aims at investigating the relationship between entrepreneurship, innovation and public sector performance. Using composite indicators, the present paper examines in a comparative way the performance of the public sector of the EU countries in relation to the degree of innovation and entrepreneurship. Emphasis will be on the new states that joined the EU (in 2004 and in 2007), during the period 2000-2009. The most important result of the paper shows that the performance of public sector indicator and the innovation index are directly related: the higher the degree of innovation, the higher the public sector performance. Also, we show that the most innovative countries (Sweden, Denmark, Finland, and the Netherlands) exhibit also a higher performance of the public sector. Romania, along with Lithuania, Latvia, Bulgaria, has a low degree of innovation, and thus a poorer performance. Based on these results, we argue that by joining Eastern European countries to the European Union, they have assumed overall EU innovation policy in order to achieve a high degree of sustainable development, but their problems related to clustering, networking and coordination prevent them from reaching a high level of innovation. At the same time, the capital deficiencies that characterize developing countries, expressed through a low degree of interpersonal trust, cooperation and lack of initiative have a negative impact on creativity and entrepreneurship.*

**Keywords:** Public sector performance, innovation, entrepreneurship, EU countries.

## INTRODUCTION

The issue of defining and measuring the impact of public expenditures on real economy is a standing interest in specialized literature, since it has a compounded effect on the individuals' welfare. At the same time, public intervention through expenditure and tax revenue is correlated with economic stability and economic growth respectively (Afonso et al., 2005 and 2010). For a long time, decision makers in the domain of public policies have been of the opinion that the public budget is a

panacea for all the problems in an economy. For example, in order to prevent the overheating of the economy during the expansion stage, by reducing expenditures and increasing taxes, deficits were covered; conversely, during recession, economy was stimulated through deficit. All these steps were taken with the same purpose of preventing crises and increasing welfare.

Studies in recent years show that public investment in ensuring the goods and services necessary for the population (healthcare, education, infrastructure, social welfare) are conducive to the expected improvement in the results and consequently stimulate the economy only if the said growth is associated to a high level of governance (Rajkumar and Swaroop, 2008), which is expressed in efficient bureaucracy and a low level of corruption. In effect, *the lack of transparency of the policies*, corruption and reduced control over law enforcement, unprincipled distribution of funds, raise questions regarding the law themselves, since the belief emerges that some are above the law, thus undermining good governance. It is good governance that ensures greater efficiency in the use of public resources and in the production of public goods (the control over corruption, the observance of the law, the efficiency of the government and the quality of regulations).

As a rule, *efficiency* is assessed by balancing expenditures against the generated benefits. *Public sector performance* is defined through the outcomes resulting from the implementation of public policies, *Public sector efficiency* is assessed by comparing the results to the resources used to produce the results. An increase in the public sector performance would imply improved relevant indicators (such as education, healthcare, administration, equitable income distribution, economic stability and performance), while increased efficiency would mean improved value of the results of the said indicators and/or an increase in expenses. Authors of previous studies have been concerned with establishing comparatively public sector performance and efficiency in the EU countries by using methodologies established in literature, especially the composite and the DEA indicators (Baciu, Botezat, 2012 and Baciu, 2013).

In a different line of argumentation, entrepreneurship can develop within a rule of the law state which offers equal opportunities to all economic agents and, at the same time, is a warrant of their freedom to appropriate the results of their work. The entrepreneurs are the people who, by acting in the present, alter future states, use their resources, manufacture and commercialize useful goods, take risks on the hope that they will get a profit through their businesses. Entrepreneurship is in fact the engine of economic development, since entrepreneurs fulfill three functions: arbitrage, innovation and imitation. Arbitrage ensures that markets, or prices, are balanced in time and space, imitation ensures that resources are used and certain branches or domains develop, while innovation and creativity ensure that new products and techniques are created. Entrepreneurship can be achieved through voluntary coordination and cooperation (Heyne et al., 2011, pp.200-204).

In developed countries, economic agents are prosperous especially due to the climate of mutual trust and to efficient institutions, while the contract and the right to own property are fundamental values. Reversely, the developing countries with a deficit in terms of social capital visible in a low level of interpersonal trust, of cooperation and lack of initiative, are faced with a negative impact on entrepreneurship and on creativity (Inkeles, 2000). The presence of problems such as clustering, networking and coordination (Bekkers et al., 2011, pp.35-82) prevent convergence regions from reaching a higher level of innovation.

Entrepreneurial culture develops against a background of abundance by the law, control over corruption, respect for private property and mutual respect; initiative, voluntary cooperation and innovation create long-term effects on the performance of economic systems when the state guarantees the respect for property ownership.

One of the factors influencing development is the amount of capital and productive investments. The latter are not, however, random. Hence, public authority should inform the framework of economic development through stable, clearly set rules and certain intelligently made public investments which should be thus placed as to free economic potential. Clearly established and transparently communicated public policies, objectively assessed and open to participation, truly contribute to economic development. In turn, they can engender the necessary connections with the private investments, the only ones which can generate welfare. The investment process is similar to improvisation in jazz music – it has to be spontaneous, yet no disorderly (US Economic Development Administration, *A practitioner's Guide*, p.14). It observes certain rules, structures, main themes within whose framework new ideas and variations can appear. In the end, the music sounds fine, the musicians adapt to changes as they go, and take advantage of the new opportunities.

## 1. METHODOLOGY

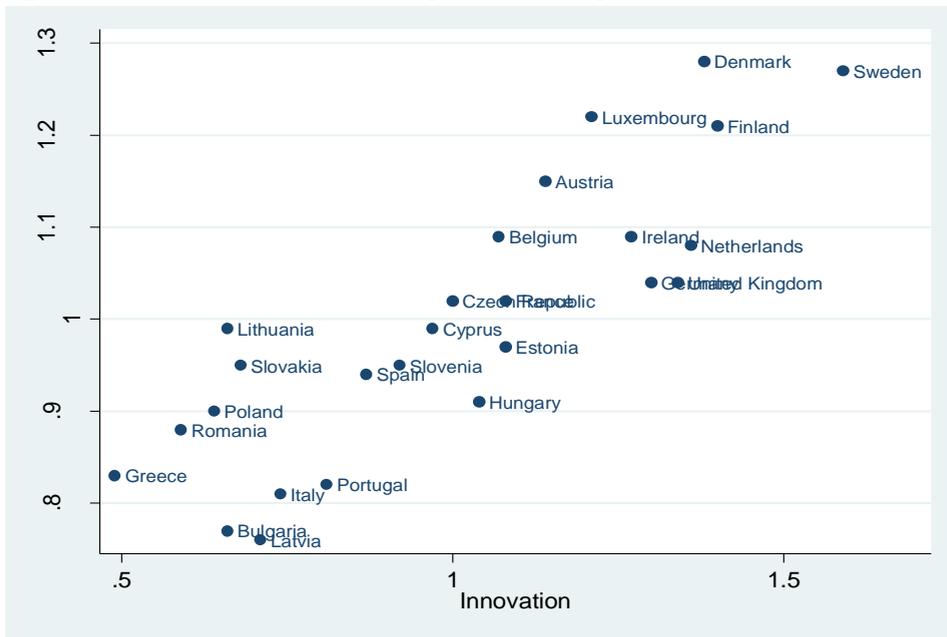
In the current paper we start from the hypothesis according to which public sector performance is a determining factor of the entrepreneurial function; both the former and the latter contribute to the general performance of economic activity. In order to analyze the relationship between the public sector, entrepreneurial initiative and innovation, we have used the following indicators. Public sector performance is presented by using a composite index, whose construction and values are presented in previous works (Baciu & Botezat, 2012 and Baciu, 2013). The index composition is based on the following sub-indicators: economic performance, equity income distribution, economic stability and performance, administration, health and education. As attributes of the entrepreneurial function we consider the entrepreneurial initiative (measured by Global Entrepreneurship Monitor, 2011) and innovation (INSEAD Global Innovation Index 2011, <http://www.globalinnovationindex.org>). Besides the correlation analysis of the relationship between public sector performance and entrepreneurship, the paper also

presents to what extent the degree of economic freedom influences the performance in the public sector. For this purpose we have used the index of economic freedom provided by Heritage Institute (Heritage Institute, [www.heritage.org](http://www.heritage.org)). Entrepreneurial initiative was further correlated with sub-indicators of public sector performance (the quality of administration and education). The period considered for this analysis is 2000-2009 for the 27 EU countries. A detailed presentation of the data and their source can be found in our previous work (Baciu & Botezat, 2012 and Baciu, 2013).

## 2. RESULTS

Although recent development policies admit as a central framework Robert Solow's model of economic growth, they place entrepreneurship at the core of their interest. Huerta de Soto (2010, pp.47-65) describes the fundamental characteristics of entrepreneurship by which it contributes to increased efficiency. Thus, entrepreneurship not only disseminates information, but, through its dynamic nature, it also constantly generates new information. At the same time, it is creative and coordinating, and eliminates social discrepancies from the economic agents' behavior; not least, it is competitive, as the same opportunity for profit cannot be discovered by two economic agents at the same time. It is the entrepreneurs who dynamically increase efficiency in the entire economic activity and contribute to knowledge spillovers, in their attempt to use the comparative advantages by commercializing new ideas and methods. Some entrepreneurs will be genuine pioneers, others will be simple imitators, but they all represent the vehicle of economic growth. Within this context, development policies emphasize those functions of the state that generate new opportunities and ensure lower trade costs. These indicators, known as opportunity indicators, reflect the performance of those public sectors whose good performance has a positive influence on the opportunities an individual can have in the said public system (performance in public administration, education and healthcare).

Figure 1 shows that best performing systems are to be found in Europe's richest countries, which at the same time are also the most innovative (Sweden, Denmark, Finland, Austria and Luxemburg). The countries that have the worst performing public systems are also the least innovative (Bulgaria, Latvia, Greece, Romania); most of them are ex-communist countries, although there are exceptions, too (Italy, Portugal).

**Figure 1. The connection between public sector performance and innovation**

Source: own calculations

Using the opportunities provided by the market to their best advantage, incessantly trying to find the most profitable ratio cost – benefits, entrepreneurs act in relation with the governing rules. If the rules are consistent and clear, supported by a rule of the law state (fostering private property, free prices, a healthy currency, free trade, transparent policies, efficient bureaucracy), the entrepreneurs engage in economic transactions with a good faith and willingly cooperate, while general welfare increases (Pohoată, 2009, pp. 214-217).

Figure 2 shows the analysis between economic sector performance and the economic freedom index. At the top of the list of the best performing countries are those situated at the top of the list of the most liberal countries, too; this supports the idea that freedom of business, the observance of law, good governance, investment opportunities are generally correlated with economic performance (Iacobuță, Gagea, 2010), as well as with public sector performance. This should not be interpreted as a notion that the state as such is a barrier to performance and prosperity. Efficient governance implies that the state succeeds in creating a framework that allows, in a non-discriminatory way, the entrepreneurs to invest, reorganize and look for comparative advantages.

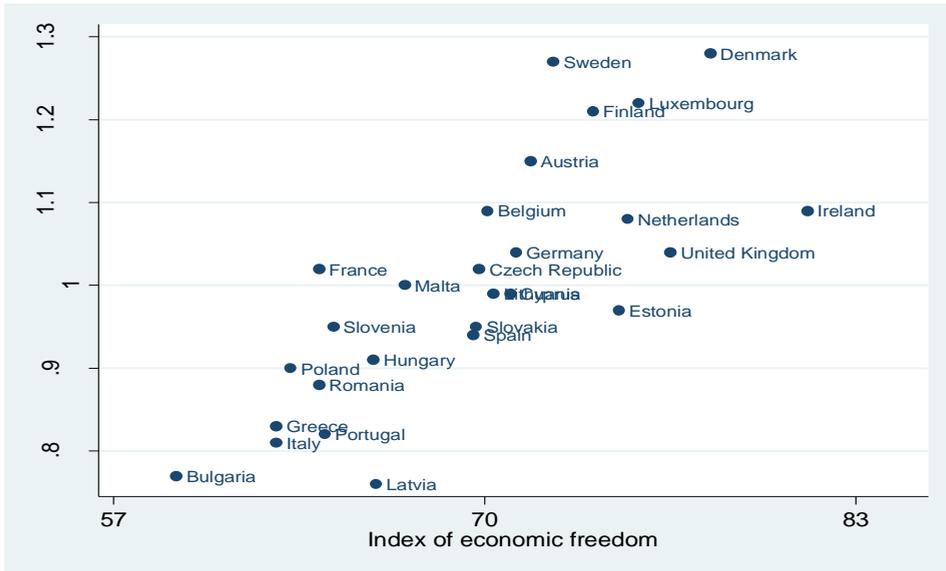
On the other hand, the mere existence of entrepreneurial initiative is not enough to generate the global performance of economic systems. Entrepreneurial culture and experience can be contrary to rules and policies, as the economic

agents look for counter-productive rent seeking activities, while the rules and policies, although well defined, are not implemented or observed (Boettke, 1998, p.16).

Figure 3 and 4 present the analysis of the relation between education, administration and entrepreneurial initiative. As far as the relation between performance in education and entrepreneurial initiative is concerned, it can be noticed that the desire to set up and develop entrepreneurial activities is higher not in the more developed countries, on the contrary, the initiative is higher in the countries with the lowest performance in education. This result is consistent with previous studies (Oosterbeek et al. 2010; von Graevenitz et al. 2010) which, using methods to calculate causal effects, have emphasized the negative relation between performance in education and the intention to engage in entrepreneurial activities. Figure 4. shows a much closer negative link. It refers to the relation between entrepreneurial initiative and the administrative sector performance: the higher the performance in the administration is, the more reduced the entrepreneurial initiative.

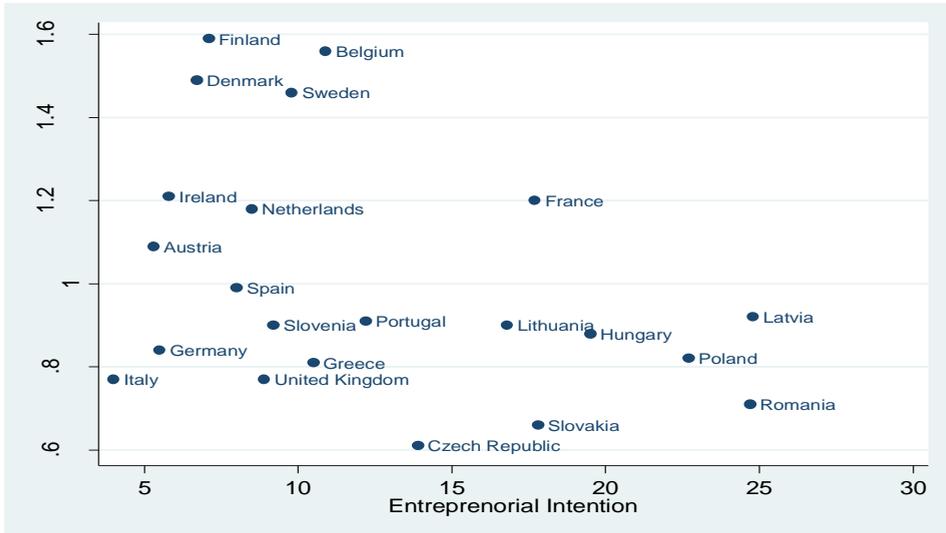
The Ha-Joon Chang hypothesis is confirmed, according to which poor countries display a higher degree of entrepreneurship than the richer ones. Global Entrepreneurship Monitor measures entrepreneurial initiative and attitudes. Empirical evidence shows that the poorer countries have a larger number of entrepreneurs with an appropriate attitude than the richest countries. What prevents the entrepreneurs from the former countries to be successful is the high degree of leverage they risk to expose themselves to when they embark on setting out a business, the lack of own capital, as well as the fallacy of composition – the fact that some people can succeed with a particular business does not mean that everyone can succeed with it (Ha-Joon Chang, 2010). Moreover, the high degree of corruption in these countries, the preferential granting of funds, discretionary regional policies, monetary policies which stimulate consumption at the expense of saving, increase the difficulties entrepreneurs are facing in these countries (Heyne et al, 2011, pp.389-395).

**Figure 2. The connection between public sector performance and economic freedom index**



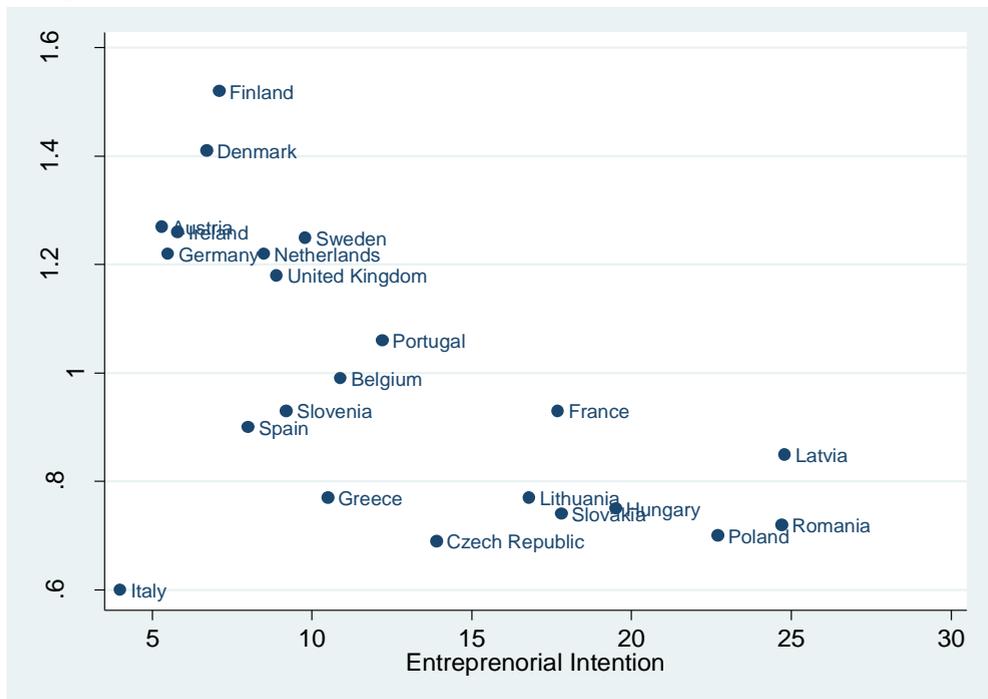
Source: own calculations

**Figure 3. The connection between performance in education and entrepreneurial intention**



Source: own calculations

**Figure 4. The connection between performance administration and entrepreneurial intention**



Source: own calculations

## CONCLUSIONS

The main conclusion of the present study is that in the countries of the ex-communist block, there is a stock of entrepreneurship, as well as of entrepreneurial initiative, but it has to pair with a certain cultural, institutional and political context. If this does not happen, entrepreneurship fails to produce the expected results on economic growth through innovation and spill-overs. The institutional mechanisms such as the elements considered for the calculus of the index of economic freedom, transparent policies creating opportunities for the economic agents, have the role of prerequisites in the expansion of trade, in the creation of those business relations based on trust and commitment, and hence in the creation and consolidation of the social capital. Therefore, it can be said that entrepreneurial coordination and innovation can fulfill their role of generating economic development in a context favourable to the expansion of businesses. Reliance on law and policies, efficient governance, public sector performance offering the population the necessary support

through its functions, human capital and education are the factors that favor entrepreneurship and economic growth.

### Acknowledgement

The present paper has benefited from the financial support of the project “Real Access to the Labor Market through Virtual Company”, financing contract no. POSDRU/90/2.1/S/63442, project financed by the European Social Fund through the Sectorial Operational Programme Development of Human Resources 2007-2013.

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# THE CURRENT EU'S PREFERENCES ON TRADE AGREEMENTS

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**Abstract:** *The European Union is considered to be the biggest actor in the world economy, because it covers a significant percentage, approximately 20%, of global exports and imports. Thus, knowledge of the provisions of the EU's common commercial policy is an acute need and a topical issue not only for the Member States of the Union, but also for a rest of the world. Relating at the dimensions of the common commercial policy (especially multilateral and bilateral/regional), the aim of this paper is to present the position of the European Union towards the trade agreements in the present time, mainly after the current economic and financial crisis. As an important actor in the World Trade Organization, the EU must to follow the rules that are settled within multilateral WTO rounds. The main objective of this organization is to establish standards to promote the trade liberalisation. Reviewing the literature in the last few years, we found that the common commercial policy of EU became more protectionist. Thus, the European Union tries to change its free trade's policies. After the current economic crisis the Union has turned its attention to conclude more bilateral and regional agreements with countries and regional areas of the world.*

**Keywords:** EU's common commercial policy, trading power, current crisis, GATT/WTO, Free Trade Agreements

## INTRODUCTION

In general, today we can say with certainty that the international trade has become a huge network of activities that are based on cooperation, collaboration, trade agreements, etc. Regardless of the level of development of each country, their economic activities are highly interdependent.

In international trade, the main objective of the European Union is to ensure a free and fair trade, namely the development of enhanced trading system. Thus, all EU member states can trade on equal terms and without protectionist barriers. Today, the European Union is considered to be one of the most important players in both the international and regional trade areas. The Union alone covers approximately 20% of global exports and imports.

Considering the EU's external relations, we can see that the concluding of a number of trade agreements, especially multilateral agreements, has favored the European Union in obtaining an important role in international trade. Some of the

reforms that took place during the last decade in the EU were motivated by the participation of the Union and its member countries in the World Trade Organization. The European Union was and remains a major actor in GATT/WTO's multilateral negotiations.

In this paper we intend to present today's attitude of the European Union towards the multilateral dimension of EU's common commercial policy. Generally, this dimension is realized within World Trade Organization. Thus, we chose to review that the European Union, as a world's leading trading power, upholds trade liberalisation and WTO's multilateral rule-making. The current economic crisis has a major impact on international trade, including on external trade of EU. Nowadays, the European Union chose to play "double" in international trade. On the one hand, the EU follows the rules set out by World Trade Organization and, on the other hand, EU has decided to conclude necessary bilateral and regional trade agreements with trading partners.

## **1. THE EUROPEAN UNION – A MAJOR TRADING POWER**

One of the main pillars of the European Union's relations with third countries is trade policy. The reason for a common commercial policy is that the free movement of goods and services within the Union can not be achieved with different national policies that generate negative outsourcing. Thus, one of the general objectives that formed the basis of the implementation of the EU's common commercial policy is to promote the trade with other countries (non-members of the EU) and free trade.

### **1.1. The EU as a WTO member**

The bedrock of the European Union's common commercial policy is the single market. If the single market works very well, then European Union turns its attention more to the outside, ensuring open markets abroad. And, if the single market shows signs of internal protectionism, then the Union would become more protective abroad. On the current global economic and financial crisis, Glatz et al. argue that the first priority for European Union must be to protect the single market against the crisis that endangers the existing gains. The second priority must be to approach "unfinished business" on the single market (Glatz et al., 2011, p. 144).

Reviewing the research literature in recent years about EU, it can be seen that many economists support the idea that the European Union is an important and huge trading power in the world. The common commercial policy of this Union based on principles of equality, especially on tariff changes and trade agreements. Generally, these measures of equality concern the trade liberalisation and also the measures of trade protection. In the last few decades, the European Union trade policy developed, in the first instance, through the General Agreement on Tariffs and Trade

(GATT)/World Trade Organization (OMC) rounds and through bilateral trade agreements with third countries (Delescluse et al., 2008, p. ii).

The European Union, as one of the world's important players in the international trade, upholds trade liberalisation and WTO's multilateral rule-making, acknowledging the fundamental importance of World Trade Organization in the international trade system. Thus, the EU engaged to trade multilateralism (\*\*a).

In December 2009 the official name for EU in the WTO changed from "European Communities" to "European Union". This change was also available in the outside world. Thus, since then, like each of its 27 member states, the EU has become a WTO member in its own right, making 28 members of WTO altogether. On the whole, for European Union and its members the European Commission (who is seen as the EU's executive arm) alone speaks in almost all WTO affairs and WTO meetings. For this reason, in most cases, WTO materials are addressed directly to the "European Union". At the same time, the member states can coordinate their position in Brussels and Geneva. Also, in certain situations, the references can be made to only one EU member country, who has its own specific laws. This is the case in some disputes when an EU member's law or measure is cited, or in notifications of EU member countries' laws, such as in intellectual property (TRIPS) (\*\*c).

For European Union the active involvement in multilateral trade can lead to more growth and more products on sale at competitive prices. By promoting a more equitable and a more stable international trading system, the EU takes much care to ensure European companies new markets and also to observe the rules and make sure others also play by the rules. Also the EU considers to be important to create tangible benefits for its citizens. As a member of World Trade Organization, the EU also looks for to promote sustainable development in trade. Concerning this type of development, the Union engaged to promote the "Everything But Arms Initiative" (where the imports from the poorest countries in the world enter the EU free of import duties or quotas, with the exception of armaments), the Special incentive arrangement for sustainable development and good governance, known as GSP+, and Aid for Trade. Also, since the Doha Development Agenda launch in November 2001, the EU has been an active actor in this round (\*\*a).

## **1.2. The EU trade policy and the current economic crisis**

For a long time, the reduction of trade barriers contributed to the expansion of world trade volume. This involvement played an important role on global growth and led to economic development. However, the current economic and financial crisis raised doubts about the benefits that can be generated by liberalisation of trade. Thus, to protect their sectors of international competition, many countries resorted to protectionism, especially in relations with third countries. Practically, the crisis

canceled the benefits of free trade that usually are supported during a period of economic prosperity.

The foreign trade is one of the main forms of international cooperation in the world. This indicates the place and role of trade policy in the politics of a country or organization. In this respect, according to an analysis by Nacewska-Twardowska, from trade history we can deduce that in the world for a long time two opposing coordinating business practices have predominated: namely, regional and multilateral. The European Union is an exception of the principle of trade liberalisation, acting at the same time according to its own agreements with some countries and regions but also following to the World Trade Organization's dispositions. Thus, Nacewska-Twardowska argues that the EU's common commercial policy is one of the EU's pillars that significantly affects the economic development of the region. Therefore, during a period of crisis, it is acceptable to question about the applicability of the common commercial policy and if the changes in global economy affect the functionality of this policy. In recent years, we can see a growing trend of regionalism in the European Union. Even the enthusiastic supporters of the idea of multilateralism in trade look for new solutions (Nacewska-Twardowska, 2010, p. 153). In what concerns the preferential trade agreements, Facchini et al. found, after a study, that the number of such agreements increased dramatically in the last two decades. The current arrangements took the form of free trade areas, and less than 10% can be considered a full customs union (Facchini et al., 2012, p. 2).

The current economic crisis still has a major impact on the European Union's common commercial policy. In this regard, from the point of view of Halmai and Vászary, the dramatic decline in the actual output of the European economy is thought to be more than a cyclical discrepancy from the potential output. The level and the growth rate of the potential output indicate an unfavorable development. The effects of the crisis on the potential growth must be reviewed considering also the potential growth factors (Halmai and Vászary, 2010, p. 411). Taking into account that the member states of European Union are characterized of different economic standards and also that each country practices differential macroeconomic policies, we can argue that the countries' strategies against the crisis can generate a number of distinctions between European Union's countries.

According to a European Commission report, from 2011, when the Lisbon Treaty entered into force it led to substantial changes both in the adoption of delegated and implementation acts and in the conduct of trade policy. Regarding the EU's common commercial policy, with the Lisbon Treaty the European Parliament became co-legislator, having an important role in concluding the trade agreements (\*\*\*b, 2011, p. 2). The aim of the Lisbon Treaty is to make the European Union more efficient, internally more democratic and worldwide more coherent. The EU's common commercial policy is now seen as an integral part of the global EU's external action and its relations with third countries. Now, foreign direct

investments, trade in goods and services and commercial aspects of intellectual property fall under the exclusive competence of the European Union. The member states will no longer be able to conclude their own bilateral investment treaties, unless they will be authorized by the EU to do so. What is important to remember is that, by the dispositions of the Lisbon Treaty, EU's trading partners will have to consider the common commercial policy of European Union as part of their overall external action (Pollet-Fort, 2010, pp. 1-4). In general, it seems that the Union's role in international trade, regarding policies making, will be improved by the new arrangements. However, everything depends on the implementation of the Lisbon Treaty's provisions, especially regarding how European Parliament will exercise its newly acquired powers. Until the Lisbon Treaty the events of recent years and enlargement of European Union to 27 members proved that the operating system could not continue and that a new institutional framework was needed. The implementation of the provisions set out in the Lisbon Treaty were considered by many the solution. However, at the same time, these provisions may lead to completely opposite situations as those mentioned above concerning intra-EU's trade. Even though the current financial crisis had a major impact on trade, the trade can also be affected by the decision makers whose actions in this field can be different from the provisions in the Treaty.

Nowadays, the fact that developing nations became major trading partners and the current financial and economic crisis affected the global economy, the European Union, like United States, remained an important economic and trade power in the world.

## **2. MULTILATERAL VERSUS PREFERENTIAL AGREEMENTS OF EU**

According to Burnete, during the postwar period, the efforts of world's nations concerning the regulation of international trade materialized in the creation of a legal and institutional framework in which many problems could be settled through multilateral negotiations. Therefore, in 1948, GATT was found and, in 1995, became WTO. The main objective of this organization is to create rules and regulations to govern the actions of participants in world trade (Burnete, 2007, p. 271).

The process of globalization forces the countries of the world to participate in the global economy. As a result, the states took measures to reduce trade barriers (including tariffs and other protectionist tools of trade). Thus, since its beginning, the World Trade Organization has aimed to minimize the trade barriers favoring the trade liberalisation in the international scene. Today, the WTO is the most important and largest organization of trade integration agreement, searching to make better the trade relations between the WTO's members. For determination of the trade policies, it is important that the reduction of the existing tariffs between countries and their trading partners to be made without affecting the welfare. The change in the tariff rates could conduct to a number of internal and external economic growth (İncekara

and Ustaoglu, 2012, pp. 464-465). According to Evenett and Vines, nowadays, considering the current evolution and level of world economy, the WTO has two functions. Firstly, to ensure a forum through which all WTO's members can negotiate with each other the entry on the markets of their partners at the same time as they liberalize themselves. Secondly, to provide constraints on future policy (Evenett și Vines, 2012, p. 196).

In present time, the current global economic crisis is a substantial problem not only for EU's economy, but also for its trading partners, this requires effective and urgent solutions. Thus, the member states shall cooperate in all areas, functioning as a whole, with shared objectives. For EU's member states, the trade was the first area in which they are agreed to delegate some of their sovereignty and to transfer to the European Commission the right to decide in trade negotiations, especially the negotiations of international agreements.

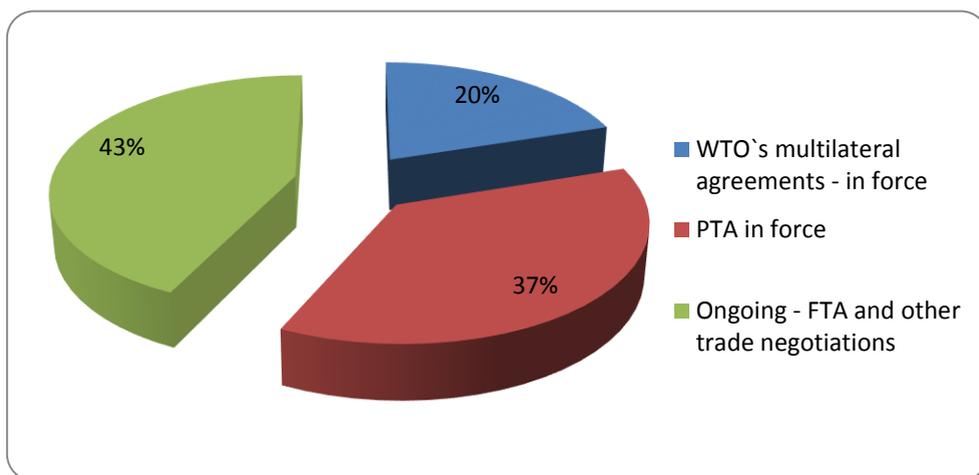
As the world's leading trading power, the European Union has applied to use multilateral, regional/bilateral and unilateral venues in order to regulate trade. Since late 1980s, the Union has showed increasing interest in multilateral negotiations (Ozer, 2011, p. 498). Now we can observe that during the current crisis the European Union has tried to change its policies of free trade. In this respect, one of the major policy changes focuses on free trade agreements in stead of customs unions. Thus, this favored a policy more attentive to its role in Free Trade Agreements. Woolcock argues that the European Union was motivated by several factors for each European FTA (Free Trade Agreements) initiative, applying different models to all its FTAs. An important reason for EU to resort to this type of international cooperation is to achieve in FTAs what multilateral negotiations have failed to supply. According to Woolcock, in the last decade within the FTA negotiations, the Union has considered several reasons: "First, the WTO negotiations have faced a series of setbacks and the EU has agreed to discharge a number of concerns it wanted to be subject to a new WTO agreement. A second rational is developments in U.S. trade policy with an increasing number of FTAs. A third reason is the economic growth in Asia and the alleged need for Europe needs to strengthen its trade performance in Asia." Only several bilateral measures are in accordance with multilateralism, promoting transparency and regulatory best practices and not affecting the vitality of the multilateral order. Thus, introducing new standards in its bilateral agreements, the European Union should firstly ensure that its agreements look up improved in compliance with existing international norms or standards (Woolcock, 2007).

Thus, the European Union has strongly promoted the open and fair trade with all its trading partners. In present time, the EU both participates in WTO's multilateral negotiations, known as "Doha Development Agenda", and conducts a number of negotiations with the countries and regional areas of the world. Therefore, on the one hand, the Union has specific trade policies in effect for its trading partners and, on the other hand, it remains a major and an important member of World Trade Organization, following the WTO's global rules on international trade set out.

As a member of World Trade Organization, the European Union respects the provisions of the three general WTO agreements (see *ANNEX 1*), namely: Multilateral Agreements on Trade and Goods (that includes 13 types of agreements); General Agreement on Trade in Services; and Agreement on Trade-Related Aspects of Intellectual Property Rights.

The EU has successfully concluded a number of important trade agreements with trading partners and is in the process of negotiating agreements with many more. Under WTO's multilateral agreements, the parties exchange tariff concessions or other preferential treatment (see *ANNEX 2*) (\*\*\*)d).

**Figure 1. EU's trade agreements: ongoing and in force**



Source: Own processing after European Commission

According to official information published by European Commission, in Figure 1 we present the share of each type of trade agreements of the total number of EU's trade agreements both in force and ongoing. Thus, the WTO agreements in force, and in which the European Union is party, represent 20% of all EU's trade agreements. In present time, the in force trade agreements that concern exchanging tariffs concessions or other preferential treatment (with countries from Europe; Mediterranean region; other countries; and some customs unions) represent 37% of the total. Under these agreements, the European Union is in the process of negotiating agreements with other countries and regions, these agreements represent 43% of the total.

**Box 1. An example of ongoing negotiations: four non-EU members from Eastern Europe**

**Ukraine:** The negotiations for a DCFTA (Deep and Comprehensive Free Trade Agreement) were launched in 2008 and have been concluded in 2011. The DCFTA will be part of a future Association Agreement, which will replace the present Partnership and Cooperation Agreement between the EU and Ukraine (which dates from 1998). The EU is among Ukraine's most important commercial partner and accounts for about one third of its external trade. Ukraine's primary exports to the EU are iron, steel, mining products, agricultural products, and machinery. EU exports to Ukraine are dominated by machinery and transport equipment, chemicals, and manufactured goods.

**Georgia:** In the sixth round of EU-Georgia DCFTA, that took place on 19-21 March 2013 in Brussels, the parties come close to finalising the talks though further discussions on a number of points are still required. The EU is the main trade partner of Georgia, in 2011 trade with the EU represented 26.1% of overall trade for this country.

**Armenia:** On 17 February 2012, the Council gave the Commission the green light to start the negotiations for a DCFTA, as part of the EU-Armenia Association Agreement. The aim is an ambitious agreement, with a broad scope and wide regulatory approximation with the EU *acquis* in trade and trade related areas. 5th round is scheduled for 16-17 April 2013 in Yerevan. The EU is the main trade partner of Armenia, in 2011 trade with the EU represented 32% of overall trade for this country. Armenia's and Georgia's share of overall EU trade remains very low, at around 0.1% .

**Moldova:** The negotiations were launched on 27 February 2012 and are now in the end phase. Five negotiating rounds have taken place already. Only few topics remain left for discussion. 7th round of negotiations is foreseen for 10-14 June 2013 in Chisinau. The EU is Moldova's first trading partner with more than 40% of Moldova's total trade - followed by Russia and Ukraine. Overall trade with Moldova accounts for only 0.1% of EU's overall trade. EU exports to Moldova are dominated by machinery, transport equipment, chemicals, fuels, mining products and agricultural products. EU imports from Moldova to the EU (€842 million in 2011) are mainly agricultural products, clothing, textiles and machinery. Over half of Foreign Direct Investment came from the EU Member States and more than 10% of the Commonwealth of Independent States member countries.

*Source:* European Commission

Thus, according to European Commission, the European Union concludes bilateral agreements and devises, specific trading policies with third countries and regional areas, in addition to the WTO's multilateral negotiations. In most cases, the EU negotiates full Free Trade Agreements whose rules are set out in the World Trade Organization, namely in Article XXIV of the GATT and Article V of the GATS. Thus, in general, FTAs are designed to create opportunities by:

- opening new markets for goods and services (increasing investment opportunities);
- making trade cheaper (eliminating substantially all customs duties);
- making trade faster (facilitating goods' transit through customs and setting common rules on technical and sanitary standards);
- making the policy environment more predictable (taking joint commitments on areas that affect trade such as intellectual property rights, competition rules and the framework for public purchasing decisions) (\*\*\*\*d).

Finally, the European Union played an important role in the negotiations on trade liberalisation. The latest negotiations concern the Doha Round began in 2001 in Qatar. The purpose of these negotiations, held under the World Trade Organization, is to reduce tariffs and to eliminate other barriers in world trade. Following previous rounds, the average of import tariffs in the EU was reduced to 4%, one of the lowest in the world. Moreover, the Union's common commercial policy largely drifted from agreements concluded within the WTO (Dobre, 2010, pp. 82-84). In the last two decades, the world economy experienced impressive growth of the number of preferential trade agreements, that entered into force (Facchini et al., 2012, p. 1).

It's hard to develop trade policies that raise national welfare. Most economists believe that the gradual liberalisation of trade was extremely beneficial. The European Union confronts with a dramatic change regarding trade policy that was made even more problematic, with the onset of global recession in 2008. Moreover, the free trade is not presented as part of the problem, but rather as part of the solution. An essential element of the European Union's response to the crisis is to complete the Doha Round of the World Trade Organization, increasing the number of bilateral trade negotiations underway with developing countries, and the initiations of new free trade negotiations with industrialized countries (De Ville and Orbie, 2011, p. 18).

## CONCLUSIONS

This paper represents a review of the literature in the last few years, including the official dates published online by European Commission and European Parliament. After consulting these sources (see references) we found that during the current crisis the European Union has been more interested to conclude bilateral agreements with the countries and regional areas of the world, than to action globally

as a major member of World Trade Organization. This fact played an important part in the current and future development of international trade.

Thus, in the first section of this paper we analyzed the recent role and place of the European Union in the international trade. Nowadays, the main objective of Union remains the same as it was settled more than 50 years ago, namely to ensure a free and fair trade. The EU's trade policy, known as the common commercial policy, also has in present the aim to promote the trade with third countries and the free trade. This policy based on principles of equality, especially on trade agreements and tariff changes, considering the trade liberalisation a way to larger economic development. The fact that the European Union is actively involved in the multilateral trade can lead to more growth. We also found that the idea that the European Union is a major trading power in the world is supported by many economists. The Lisbon Treaty that entered into force in 2009, has the aim to make the EU more efficient, internally more democratic and worldwide more coherent. This Treaty is considered by many to be the solution that can resolve the current problems of the EU. Thus, the trading partners of the European Union now must see the common commercial policy as an important part of their relations with the Union. This policy is an integral part of the global EU's external action.

In the last section of this paper we decided to present which are the current preferences of the European Union in the field of international trade agreements: multilateral or preferential. As an important trading power in a globalized world, the EU practically was forced to use multilateral, regional/bilateral and unilateral venues to ensure an efficient trade and to promote the free trade. As one of the major actors in the international trade, the Union acknowledges the fundamental importance of the World Trade Organization in the international trade system. However, nowadays, the European Union became more attentive to its role in the Free Trade Agreements. One of the reasons why the European Union choose to conclude the Free Trade Agreements, especially bilateral agreements, was to achieve in FTAs what multilateral negotiations have failed to supply. In conclusion, the European Union participates in multilateral negotiations of the World Trade Organization and also conducts a number of negotiations with countries and regions of the world. Thus, the EU is an important actor within the negotiations on international trade liberalisation, remaining an important economic and trade power in the world.

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## ANNEX 1

1. Multilateral Agreements on Trade and Goods	
General Agreement on Tariffs and Trade 1994	Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade 1994
Agreement on Agriculture	Agreement on Preshipment Inspection
Agreement on the Application of Sanitary and Phytosanitary Measures	Agreement on Rules of Origin
Agreement on Textiles and Clothing	Agreement on Import Licensing Procedures
Agreement on Technical Barriers to Trade	Agreement on Subsidies and Countervailing Measures
Agreement on Trade-Related Investment Measures	Agreement on Safeguards
Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994	
2. General Agreement on Trade in Services	

### 3. Agreement on Trade-Related Aspects of Intellectual Property Rights

Source: WTO

#### ANNEX 2

<i>Preferential trade agreements in force</i>	<i>Status</i>
<b>Europe</b>	
Faroe Islands	01 January 1997
Norway	01 July 1973
Iceland	01 April 1973
Switzerland	01 January 1973
The former Yugoslav Republic of Macedonia	Stabilisation and Association Agreement, 01 May 2004
Croatia	Stabilisation and Association Agreement, 01 February 2005
Albania	Stabilisation and Association Agreement, 01 April 2009
Montenegro	Stabilisation and Association Agreement, 01 May 2010
Bosnia and Herzegovina	Interim Agreement on trade and trade related matters, 01 July 2008
Serbia	Interim Agreement on trade and trade related matters, 01 February 2010
<b>Mediterranean</b>	
Algeria	Association Agreement, 01 September 2005
Egypt	Association Agreement, 01 June 2004
Israel	Association Agreement, 01 June 2000
Jordan	Association Agreement, 01 May 2002
Lebanon	Interim Agreement, 01 March 2003
Morocco	Association Agreement, 01 March 2000
Palestinian Authority	Association Agreement, 01 July 1997
Syria	Co-operation Agreement, 01 July 1977
Tunisia	Association Agreement, 01 March 1998
<b>Other countries</b>	
Mexico	Economic Partnership, Political Coordination and Cooperation Agreement, 01 July 2000

South Africa	Trade, Development and Co-operation Agreement, 01 January 2000
CARIFORUM States	Economic Partnership Agreement, Provisionally applied Chile – Association Agreement and Additional Protocol, 01 February 2003 (trade) / 01 March 2005 (full agreement)
Madagascar, Mauritius, the Seychelles, and Zimbabwe	Interim Partnership Agreement signed in August 2009
Korea	New Generation Free Trade Agreement, signed 06 October 2010
Papua New Guinea and Fiji	Interim Partnership Agreement ratified by Papua New Guinea in May 2011
EU-Iraq	Partnership and Cooperation Agreement, signed on 11 May 2012
<b>Customs unions</b>	
Andorra	01 July 1991
Turkey	31 December 1995
San Marino	01 December 1992

*Source:* European Commission

# BUSINESS CYCLE SYNCHRONIZATION CHANNELS IN THE EUROPEAN UNION

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**Abstract:** *The phenomenon of globalization has affected the business cycle synchronization in many EU countries and has increased transnational economic activities. In today's globalized economy, foreign direct investments (FDI) and trade relations are considered to be the main vectors of globalization. Furthermore, while FDIs are perceived as transmission channels for economic shocks and have a long term effect on national economies, trade affects the short-term behavior. The aim of the present paper is to explain the business cycle synchronization in the European Union based on the relationship between the GDP, FDI and trade relationships in order to determine the best transmission channel. We analyze the impact of FDI on the business cycle phase highlighted by economic growth. Because synchronization is dictated by interconnections between countries, trade relationships are due to have a significant influence in the model. In this respect we use a hierarchical cluster analysis for the European Union. The cluster approach is effective due to similar ranking of countries which display comparable behavior. The results of the study show that, in the context of globalization, we can explain business cycle synchronization in the European Union based on the GDP through FDI for long term interactions and trade relationships for short-term associations. Regarding the future research directions, they will imply a more complex study that will include an analysis for all the 27 member states of the European Union and an increased number of variables.*

**Keywords:** business cycle synchronization, foreign direct investments, trade relationships, cluster analysis, globalization

## INTRODUCTION

The integration processes within continental economic, politic and social structures that national economies undergo has augmented the purpose to better understand and asses the transmission of business cycles fluctuations at a transnational level.

Supported by the assumption that the synchronization of business cycles represents a direct effect of globalization, the idea of estimating it has represented,

for a long time, a key research issue in the international literature. However, the main challenge is that of developing different methods of estimation, because there is no direct measuring method. Taking as a starting point the definition of the globalization process provided by Bhagwati (2004, p. 15) and considering the framework provided by the growth cycle, numerous studies have estimated the phenomenon of synchronization in the international economy, by making use of the correspondence displayed between the Gross Domestic Product and commercial and financial flows.

The purpose of the present paper is the assessment of the business cycles synchronization on the basis of the underlying connection between the GDP, trade and Foreign Direct Investment flows. These international linkages are depicted by the academic literature as two of the main vectors that drive the process of business cycles correlation and, consequently, the phenomenon of economic globalization. The analysis employs the concept of “growth cycle” by using “the correlation that occurs between the output growth rates, considered as measures of cross-country linkages in macroeconomic fluctuations” (Bordo & Helbling, 2010, p. 7). Thus, by focusing on the changes that appear at different moments in time, the study aims at estimating changes in the business cycles synchronization.

The contribution of the research is provided by the existence of bilateral linkages between globalization assessed by business cycles synchronization and the financial channels. In addition, it can offer explanations regarding the integration of national economies in regional economic blocs, i.e. the European Union, and also the amount of time needed by each country to synchronize its national business cycle with core cycle of the region through one of the aforementioned channels. This study could find an immediate application in the European Union’s policies regarding new members or aspiring states and also the amount of time needed to satisfy certain economic thresholds. What is more, it can give details regarding the effects of the European Neighborhood Policy on commercial and financial flows between the members of the European Union and two neighboring countries included in the analysis, namely Moldova and Ukraine.

The studies and research papers that have investigated the issue of business cycle synchronization have reached quite different concluding ideas. Given the volume of literature and also the complexity of the analyzed phenomenon, these differences are in close connection with the approaches used, either qualitative or quantitative, the variables used in the model or the methodology applied to estimate business cycles and alternative ways to assess synchronization (De Haan, Inklaar, & Jong-A-Pin, 2008). As regards the data, the most common variable used is the GDP, found in an overwhelming number of studies (Fidrmuc and Korhonen (2010), (Darvas & Szapary, 2004), (Artis, 2003), (Li & Liu, 2004), (Otto, Voss, & Willard, 2001), while other studies (Roman, Jaba, & Roman, 2009) use political business cycles in order to explain economic fluctuations.

In close connection with the purpose of the present analysis, we are more interested in the studies that have estimated the synchronization by means of the

linkages between the GDP and trade flows, trade integration and trade openness, on the one hand, and with FDI flows on the other hand. A very large part of the literature highlights the importance of trade in estimating business cycles synchronization, due to the fact that an increased rate of the commercial flows between two or more countries can determine a synchronization pattern thereof.

Traditionally, it has been considered that the commercial component can best explain the business cycles fluctuations. The international literature (Frankel & Rose, 1998), (Kose, Otrok, & Prasad, 2008, p. 16) highlights the role trade plays in this particular analysis, focusing on bilateral trade relations and trade integration. Frankel and Rose (1998, p. 1016) and Imbs (2004, p. 28) stated that there is a strong positive relation between the degree of bilateral trade intensity and cross-country bilateral correlation of business cycles. What is more, the authors consider that countries with closer trade connections tend to have tighter correlated business cycles.

In contrast, there are studies that have analyzed the role of trade flows in estimating business cycles synchronization and have reached opposite conclusions. A number of researches ( (Artis, 2003, p. 13), (Bordo & Helbling, 2010, p. 4), (Inklaar, Jong-A-Pin, & De Haan, 2005, p. 13), (Darvas & Szapary, 2004, p. 22)) have underlined the idea that trade flows and trade relations have a modest and ambiguous role of reduced intensity in assessing business cycles synchronization. Furthermore, all have confirmed the importance of financial flows in the analysis, with Inklaar et al. (2005, p. 15) emphasizing the role of financial and monetary policies that, along with trade relations, can result in business cycles synchronization.

The pre-requisite conditions for identifying a positive impact of FDI on the economic growth are studied by Blomström et al. (1994) who imply that FDI has a positive growth-effect when a country is sufficiently rich in terms of per capita income. Also, Balasubramanyam et al. (1996) emphasize the role of trade openness and Borenztein et al. (1998) conclude by stating that FDI results in economic growth, but only dependent on a certain level of education. De Mello (1997) shows two main channels through which FDI could lead to economic growth: the adoption of new technologies in the production process through technological spillovers and the stimulated knowledge transfers, both in terms of labor training and skill acquisition. However, when (Carkovic & Levine, 2002) estimate the effects of FDI on growth they conclude that FDI has no impact on the long run growth.

It is advisable to employ separate studies on the impact of FDI and trade on economic growth due to their interconnection, as previous studies state (Aizenman & Noy, 2005).

Furthermore, in order to obtain a classification of the studied entities based on the synchronization with the European macro-cycle, cluster analysis is employed. Artis (2003) makes use of this technique in order to prove there is no European business cycle but a global cycle with a European core, an approach further

developed in Artis and Okubo (2008), dealing with globalization and business cycle transmission. Camacho and Quiros-Perez (2006) also promote the idea that there is a link between “old” members of the EU but there is no attractor country, a hypothesis which is similar to our point of view.

The remaining part of the article is structured as follows. Section 2 present the data and methodology employed in the analysis, while Section 3 comprises the results provided by the study and their discussion. The last part of the article offers the authors’ conclusions.

## 1. STATISTICAL APPROACH

### Data

This study focuses on the transmission of business cycles on the European continent, hence we have selected a sample of 29 European countries, out of which 24 are members of the EU, 2 are beneficiaries of the ENP and the other 3 constitute a control set. Due to close commercial links with the target group, Turkey was also included. The EU aggregate has also been selected in order to have a benchmark for comparison. There have been removed from the research some small European countries such as Luxembourg, Malta, Andorra, Vatican and the former members of Yugoslavia, due to outlier behavior or lack of relevant data. The list of the chosen countries and their classification can be consulted in Table 1.

We have chosen to evaluate the business cycle in each country by means of the aggregate approach, namely by the annual growth rate of the GDP. On the other hand, the transmission of these fluctuations is monitored through two different channels, namely international trade and FDI, in order to measure the impact of each one on synchronization.

We have selected five variables, with an annual frequency, explicitly:

- GDP % growth - Annual percentage growth rate of GDP at market prices;
- Imports of goods and services (annual % growth) ;
- Exports of goods and services (annual % growth);
- Foreign direct investment, net inflows (% of GDP);
- Foreign direct investment, net outflows (% of GDP).

The data used is retrieved from the World Bank database, following their methodology, i.e. aggregates are based on constant 2000 U.S. dollars and prices are based on constant local currency.

The choice of the annual percentage growth for trade, opposed to selecting the FDI as percentage of the GDP is motivated by the fact that while trade has an immediate effect and it is therefore useful to measure the yearly change in order to account for business cycle changes, FDIs tend to have a delay in exhibiting the effects, thus the yearly change has little relevance.

We have computed aggregated measures for trade and FDI as follows:

- Trade= Exports-Imports;
- FDI=FDI\_inflows-FDI\_outflows.

The time span covered is 1992-2008, due to data availability, out of which specific moments have been chosen as follows: 1992 as a starting point, 1996 to account for the 1995 EU enlargement, 1999 as a checkpoint after the changeover to the euro currency, 2004 due to the new EU enlargement and 2008 in order to account for changes after the newest members have been integrated.

## Method

Business cycles' synchronization can be assessed by an array of methods, such as indexes, (Harding & Pagan, 2002), dynamic correlation (Eickmeier, 2007), panel analysis (Hsu, Wu, & Yau, 2011) and also by cluster analysis (Ormerod, 2008), (Artis & Okubo, 2009).

In this study we have chosen to use the k-means cluster, which is a method of cluster analysis that aims to partition  $n$  observations into  $k$  clusters in which each observation belongs to the cluster with the nearest mean. The distance employed is the standard Euclidean distance. The assignment of each entity to a cluster is performed iteratively; at each step the objective is to minimize the expression:

$$\min \sum_{i=1}^k \sum_{x_j \in S_i} \|x_j - \mu_i\|^2,$$

where  $\mu_i$  is the average of the elements in cluster  $S_i$ .

While most studies (Ormerod, 2008, p. 7), (Artis, 2003, p. 4) (Camacho, Perez-Quiros, & Saiz, 2006, p. 17) use the hierarchical cluster analysis, which reveals the optimal number of clusters, we have chosen the k-means hard clustering technique because our aim is to assess the influence of the two European influence poles (Palaşcă & Enea, 2012, p. 686), namely the EU and the Eastern core, dominated by Russia, thus a confirmatory analysis, for which this method is well suited (Camacho, Perez-Quiros, & Saiz, 2006, p. 18).

In order to evaluate the influence of each transmission channel on the business cycle, we have constructed two vectors, for each of the chosen years,  $X_T = (GDP\%, Trade)$  and  $X_{FDI} = (GDP\%, FDI)$ , with the previously defined aggregate variables. These vectors were used to compute the cluster membership for each country, via the *kmeans* function provided by MATLAB 7.12 and the results are stated in Table 1.

## 2. DISCUSSION

The patterns of business cycles' synchronization differ significantly among the sample of countries, revealing the degree of harmonization inside the EU and with the other entities.

A brief assessment of Table 1 highlights two important pieces of evidence, namely that, while synchronization via the trade channel is acquired easier but also has a higher instability, synchronization by FDI is a longer, much more stable, process. These observations are in line with the previous findings (Palașcă & Enea, 2012, p. 683) which state the delayed effects of the FDI, especially the outflows. We further discuss the economical and policy changes that led to the displayed results, in order to highlight the steps towards an increased synchronization in the European area and the surrounding neighborhood. We have taken 1992 as a starting point for our study due to the adoption in this year of the single market program in Europe, aimed at increased integration and trade facilitation (Cowles, 1995, p. 503). This is an important step towards increased interconnection, hence synchronization. The results state that, in 1992, the European countries followed the same patterns in respect to both trade and FDI. The first cluster included two Baltic States, Lithuania and Latvia, Moldova and the attraction pole of the Russian Federation, while the second cluster, dominated by the EU, grouped all the other countries, due to an increase in trade liberalization and FDI flows, generated by the fall of the communist regimes in Europe. The 1995 enlargement of the EU had a direct influence on the synchronization patterns of the sample countries. We have chosen 1996 in order to evaluate the effects of the enlargement and other changes that occurred as an effect of increased importance of the EU. The trade channel accounts for some important cluster changes, like the shift of Latvia, Lithuania and the Russian Federation to the second cluster. While the Baltic States undergo this swap as a result of the free trade agreement between Lithuania, Latvia and the European Communities (signed 12<sup>th</sup> July 1995), Russia's position is explained by intense commercial links with countries of the EU (European Parliament, 2001) as a main source both for imports and exports.

Countries like Belgium, Italy, the Nederland, Norway, Poland and Portugal move to the other cluster, not due to the synchronization with the Eastern pole, but as a result of a distinct nature of their commercial relationship and a higher economical growth than the average of the second cluster. Moldova's position in this cluster is the result of the computation method which, in absolute value, renders high values. The raw data indicate that Moldova is an outlier and was placed artificially in this cluster.

In respect to the FDI, we encounter a change to the cluster dominated by the EU of all the countries previously in cluster 1 (Lithuania, Latvia, Moldova and Russia). This conversion is motivated by the high FDI inflows received by these countries (Globerman, Shapiro, & Tang, 2006, p. 7), which determined an increase

in the economic growth, hence narrowing the discrepancies between these states and those of the EU.

On the other hand, Germany, Belgium and Cyprus fill the first, newly emptied, cluster. Germany and Belgium are important FDI inflow sources for the other countries (Globerman, Shapiro, & Tang, 2006, p. 7), while they experience a low economic growth caused by the delay effect previously mentioned. Cyprus, on the other hand, is in this cluster due to the computation method, because it has a small growth and an important FDI inflow percentage and an insignificant outflow (Globerman, Shapiro, & Tang, 2006, p. 29).

The adoption of the euro currency in 1999 is a critical moment in the dynamics of the European Union. The very aim of such a profound change is the synchronization of the EU members, in order to minimize the probability of internal economical shocks. This conversion has immediate repercussions in international trade, as the results confirm it. Previously de-synchronized with the EU, after changing their own currency with the euro, Belgium, Italy, the Nederland and Portugal regain their position in the second cluster, together with the non-member Norway and the aspiring Poland. On the other hand, the euro has a negative influence on the trade synchronization of the Eastern countries like Ukraine, Russia, Romania, the Slovak Republic and even Denmark, which is a member of this cluster due to the fact that "the Danish competitiveness was put under severe pressure because of markedly higher inflation in Denmark compared to Germany" (Henriksen, 2010). Regarding the synchronization by FDI, the 1999 moment witnesses a strong demarcation between the EU members and the aspiring countries. The candidates recorded high (inflow) FDI levels that are not matched by a comparable growth of the GDP, due to the lagging effect (Palaşcă & Enea, 2012, p. 684). Simultaneously, Belgium and Germany regain their place in the EU cluster due to a low difference between FDI inflows and outflows and an economic growth comparable with the average of the EU aggregate.

The considerable enlargement of the EU in 2004 with ten new members had immediate repercussions on both trade and FDI synchronization. This year also indicates the beginning of the ENP policy, concerning, from our sample, Moldova and Ukraine. As regards trade, the following countries are de-synchronized with the EU: Bulgaria, Cyprus, the Baltic States, Norway, and the Mediterranean countries, Portugal, Spain and Turkey. This situation is primarily determined by the fact that the aforementioned states had not taken up the euro in 2004, with the exception of Portugal. The divergence in currency translates in trade relationships burdened by exchange rate differences and additional taxes.

In contrast, the Slovak Republic, Moldova and Ukraine appear to be synchronized with the EU cluster in respect to trade. While the Slovak Republic has the highest sustained GDP growth and is considered "an economic tiger", the other two countries have attained synchronization by joining the ENP. As Emerson (2004, p. 8) notes, Moldova seeks "to gain recognition as a full partner", while Ukraine is

hoping for "a possible free trade agreement". Both Eastern countries are aspiring members of the EU and have a privileged trading relation (Kelley, 2006, p. 30), which they anticipate to use as "a springboard to membership" (Kelley, 2006, p. 48).

The FDI channel displays more robust results in 2004. The sample of countries is clearly divided between the old EU members, which have high FDI outflows and a small, but constant, economic growth versus the new members and the aspirants who display a higher degree of economic growth and also high values for FDI, mainly inflows. Belgium and Finland became synchronized with the new members due to a small difference between inflows and outflows, whereas Sweden is synchronized with the EU cluster due to high outflows and a medium but sustainable growth. Turkey and Russia exhibit an important economic growth which is not influenced by FDI; hence their membership to the first cluster is slightly artificial.

The last year of our analysis, 2008, exhibits the outcomes of the increased integration in the EU, more precisely the almost complete synchronization via the trade channel. The first cluster includes as a new member only Ukraine, whereas the second cluster has engulfed all the countries in the sample, except for Russia, Ukraine, Lithuania and Cyprus which display a very high degree of imports and a low economic growth, thus each is a consumption based society, not aligned to the desiderate of the EU, which is in favor of a sustainable development approach. The FDI channel indicates that the Mediterranean states like Greece, Portugal, Spain became de-synchronized with the old EU members and more alike the new members or the non-members, due to low levels of FDI outflows and a small negative growth. This is an indicator of the recent crisis that struck especially Southern Europe. Slovenia and Sweden are artificially in this cluster, they have a comparable high level of inflows and outflows which, as an absolute difference seems to be low. On the other hand, Belgium, Cyprus and Finland are in the EU cluster, a situation explained by the high outflows of these countries, combined with positive economic growth. The case of Cyprus is particularly interesting because the outflows tend to indicate that this country is a cross-point for money, a hypothesis sustained by its fiscal policy.

## CONCLUSIONS

The complexity and the dynamic nature of business cycles raise a number of difficulties regarding the evaluation of their synchronization. Placing the analysis within the globalization framework puts forward an even bigger challenge as regards to the methods and instruments used for the estimation.

The purpose of the present study was that of assessing the business cycles synchronization on a sample consisting of 30 European countries, by employing k-

means clustering method, over a time span covering 16 years, from 1992 to 2008, hence including at least one complete business cycle.

The results have revealed two types of synchronization patterns, corresponding to each set of variables, namely the vectors (GDP, Trade) and (GDP, FDI).

For the trade, the synchronization pattern can be described as bidirectional, from the European Union to the peripheries and vice-versa, with almost immediate results, due to the fact that commercial linkages are more easily established. What is more, bilateral free trade agreements, the free movement of goods and the use of a single currency facilitate closer commercial relations, thus leading to increased synchronization of national business cycles with the EU core.

A negative effect of the synchronization by means of trade flows is the countries' high instability regarding the cluster membership at different moments in the analyzed period (i.e. Norway, Portugal, Ukraine, Lithuania), due to differences in commercial linkages. Furthermore, national currencies and lower levels of trade openness also have an indirect negative effect on synchronization.

On the other hand, the synchronization by means of FDI presents a unidirectional flow, from the EU core to the peripheries. By contrast to trade, this type of synchronization pattern has a high stability in terms of cluster membership (i.e. France, Italy, the Netherlands, United Kingdom, Austria, Norway, Switzerland, Germany, countries that have not changed the cluster during the analysis period). FDI synchronization requires a longer period of time to develop effects in the national economies, with a lag of 2 to 3 years from the investment moment. What is more, FDI links need stable economic and political environments.

During the 1990 – 1999 interval the FDI flows have had an increased importance, especially for emerging countries. The results revealed, between 1999 and 2008, two distinct groups of countries, namely the “outflow group”, synchronized with the EU core and the “inflow group”, consisting of new members of the Union and ENP countries.

After the economic crisis, the FDI flows have suffered a decrease, thus resulting in a migration of the Southern countries (i.e. Greece, Portugal and Spain) to the inflow group.

The general conclusion is that, even though FDI need more time to have notable effects, they display a longer temporal remanence within the national economies, compared to the trade flows, which have outcomes only in the short run.

The limitations of the study come from the computation method that can yield artificial results, especially regarding outliers. That is the main reason why the future research directions will focus on this issue, by employing fuzzy cluster analysis and by enlarging the sample with more ENP beneficiaries.

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ANNEX

Table 1. Cluster membership

Country	Founding members						1973-1995						2004						2007	ENP			Control									
	E.U.	Belgium	France	Germany	Italy	Netherlands	UK	Austria	Denmark	Finland	Greece	Portugal	Spain	Sweden	Cyprus	Czech Rep	Hungary	Lithuania	Poland	Slovak Rep.	Slovenia	Estonia	Latvia	Bulgaria	Romania	Moldova	Ukraine	Russia	Norway	Switzerland	Turkey	
t 92	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	1	2	2	2	2	1	2	2	1	2	1	2	2	2		
t 96	2	1	2	2	1	1	2	2	2	2	2	1	2	2	2	2	2	1	2	2	2	2	2	2	2	1	2	2	1	2	2	
t 99	2	2	2	2	2	2	2	2	1	2	2	2	2	2	2	2	2	2	1	2	2	2	2	2	1	1	1	1	2	2	2	
t 04	2	2	2	2	2	2	2	2	1	2	2	1	1	2	1	2	2	1	2	2	2	1	1	1	1	1	2	2	1	1	2	1
t 08	2	2	2	2	2	2	2	2	2	2	2	2	2	2	1	2	2	1	2	2	2	2	2	2	2	2	2	1	1	2	2	2
F 92	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	1	2	2	2	2	1	2	2	1	2	1	2	2	2	
F 96	2	1	2	1	2	2	2	2	2	2	2	2	2	2	1	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	
F 99	2	2	2	2	2	2	2	2	2	2	2	2	1	1	1	1	1	1	1	2	1	1	1	1	1	1	1	2	2	2	2	
F 04	2	1	2	2	2	2	2	2	2	1	2	2	2	2	1	1	1	1	1	2	1	1	1	1	1	1	1	1	2	2	1	
F 08	2	2	2	2	2	2	2	2	2	2	1	1	1	1	2	1	1	1	1	1	1	1	1	1	1	1	1	1	2	2	1	

Source: authors' own computation

# EURO - THE MAIN PILLAR OF THE EUROPEAN ECONOMIC AND MONETARY UNION

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**Abstract:** *The introduction of the euro currency alongside with the foundation of the European Central Bank and the single monetary policy represent the expression of the European economic and monetary integration process. This paper aims to analyse the theoretical basis of the European single currency as the central pillar of the European Monetary Union, the effects carried out by the single currency in the Euro Zone, ending with a comparative study of Estonia which adopted the euro in 2011, and of Romania, a candidate to the EMU. The study is based on statistical data and literature reviews, with a personal perspective on this information. Looking at the adoption of the euro by the countries which carried out the convergence criteria at its both nominal and true value as estimated by the Maastricht Treaty, we notice that it has produced a series of major advantages. Still, the financial crisis pointed out some vulnerabilities of the euro, shaping for and against opinions regarding its survival. The study shows that, theoretically, more integration at a structural, institutional, financial and bank level is needed in order for the EMU to become a proper monetary zone through its single currency which is, at present, the main bond of the Euroland states.*

**Key words:** Euro Zone, Integration, The European Monetary Union

## INTRODUCTION

Based on the currency area theory, the Economic and Monetary Union (EMU) stands for a major step in the integration process for the economies of the EU states. This implies coordinating the economic and fiscal politics, a single monetary politics and a single currency. Out of these, the euro can be considered one of the great accomplishments of the EU and also the symbol and the economic power that the European Union has at a global level.

The convergence criteria estimated by the Maastricht Treaty (1991) aims to guarantee that the economy of a member state is adequately prepared to adopt the single currency. In defiance to the delicate situations the EU currently faces, such as the sovereign debt crisis, inflation and unemployment, the EMU has future prospects. We notice that in the current financial crisis context, the EU member states also adhere to the Euro Zone. An example in the respect is offered by Estonia who adopted the euro in 2011 and Latvia which aims to adhere to the Euro Zone in 2014.

The current economic crisis is perhaps the biggest challenge that the European concept will overcome in order to affirm itself at an international level as a big economic, commercial and finally political power. For these to happen, more integration at a structural, institutional, economic, commercial, bank, financial and political strata is needed.

This research sets out to analyze the theoretic context of the European Economic and Monetary Union within which the euro remains the pivot element. The effects of adopting the single currency favours and deepens the integration between member states, but requires prepared European economies, strong and convergent both in nominal and real terms.

## **1. THE MONETARY ZONE THEORY – THE THEORETICAL BASIS OF THE EURO CURRENCY**

The theoretical fundament of the Economic and Monetary Union given by the monetary zone theory was elaborated by Robert Mundell (1961) and later thoroughly studied by Robert McKinnon (1963) and Kennen (1969).

The MZO theory investigates the costs implied by adopting a single currency, their minimization depending on a series of specific characteristics of the participating countries (criteria related to the theory of the optimum monetary zones).

A monetary zone is considered optimum only when there is sufficient inter-regional mobility of the inputs. This allows adjustment in case of an asymmetrical shock which affects the regions (countries) from a monetary union differently (Andrei, 2009, p. 38). At the same time, the effects of a symmetric shock are noticed when the economies form the monetary union are equally affected. Therefore, the distinction between asymmetrical and symmetrical shocks is essential because “according to the monetary zone theory, such a zone can only be constituted with similar economies. Hence, the existence of shocks which, through their nature, have symmetrical effects, is the best proof of such similarities between those economies (Cerna, 2006, p. 70)”.

Robert McKinnon(1963) defines the concept of optimum monetary zone as “a zone in which a single currency has flexible rates of exchange compared to the other currencies of the world, constitutes the best solution in accomplishing the three

most important objectives for any economy: full labour employment, price stability and the balance of payments (Cerna, 2006, p. 67)”.

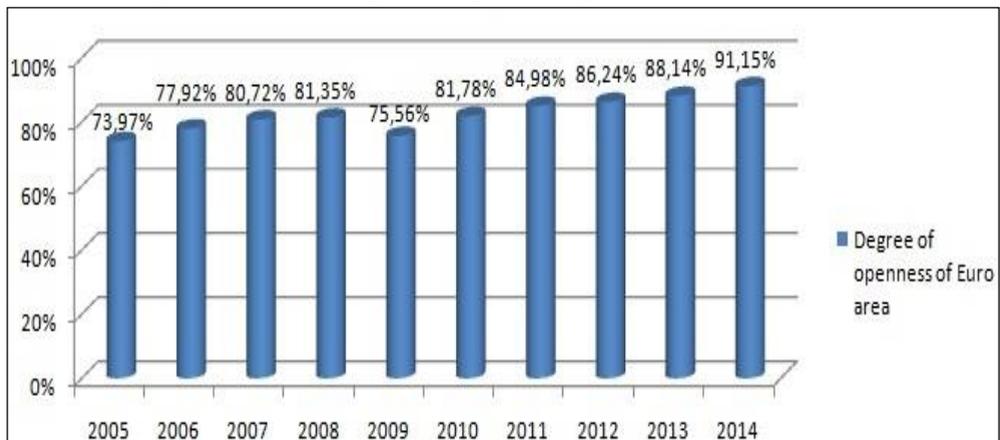
Regarding the European Community, in order for the EMU to be considered an optimum monetary zone, a series of criteria are imposed: the existence of a high labour mobility rate and wage flexibility, the imperative of a high level of openness of the economies, diversification of production in the member states and the existence of fiscal, budgetary and financial integration.

Consequently, concerning the labour mobility rate inside the Euro zone, we notice its inferiority compared to the one in the United States, this being due to the cultural and linguistic barriers between European countries, which are almost inexistent in the USA. From this point of view, the Euro zone cannot be considered an optimum zone.

Regarding the wage flexibility in the Euro zone, the current financial crisis proved that the population can withstand a considerable wage cut, therefore the Euro zone can be considered optimum for that matter.

In relation to the level of openness of the economies, according to the data provided by Eurostat, within the EMU, economies are generally opened, following an ascending trend since 2009 up until nowadays, as we can observe in the figure below. Hence, Euroland tends to be an optimum monetary zone, with an estimated openness level of 91.15% for 2014.

**Figure 1. The level of openness of the Euro zone**  
(Calculated by the formula: (Exports-Imports) of goods and services/ GDP)



Source: The author's adaptation of Eurostat data, 2013

In the Euro zone, the degree of production branching out is high, in the sense that no state is exclusively dependant on a single product; more so, they are able to provide most of their necessary goods and services from domestic production. In this

regard, Kennen (1969) had the certainty that this characteristic is much more important than an adjustment mechanism, compared to labour mobility for instance.

Fiscal and budgetary integration is a challenge for the EMU because inside the member states, the national fiscal and budgetary politics are harder to give up to in favour of the supranational ones, unlike the case of monetary politics.

As for the integration of European financial markets, the process flows very well. Many of the Union's members have addressed financial market integration, like: Austria, The Czech Republic, Denmark, Estonia, Finland, Hungary, Ireland, Latvia, Lithuania, Luxembourg, Malta, Great Britain and so on. The financial market integration is favoured by the legislation harmonization in the field and through the existence of the euro currency itself, which acts as a catalyst in the process.

Therefore, the Economic and Monetary Union doesn't meet currently all the criteria of an optimum monetary zone. This thing has led to the destabilization of the single currency, in the context of the current crisis, compared to the US dollar.

The magical triangle towards which the European Union aims (full employment, price stability and the balance of payments) can be built and maintained with the help of the single currency, which is considered a stabilizer and a barometer of the Monetary Union. This is why the monetary, fiscal and budgetary integration has to be given a higher importance in order to sustain the single currency in its quality of main pillar of the EMU. Only so, the EMU will be able to become in the years to come an optimum monetary zone.

## **2. THE EFFECTS OF THE EURO CURRENCY**

The single currency has become a symbol of Europe, seen by the citizens in the euro zone as one of the biggest success of the European integration, together with the four fundamental liberties of the European Union. The euro currency, as the main pillar of the EMU, offers multiple economic direct advantages which occur inevitably by replacing the currencies of the member states with a single currency; these are:

- The elimination of the currency risk;
- The reduction of the currency costs;
- Price transparency.

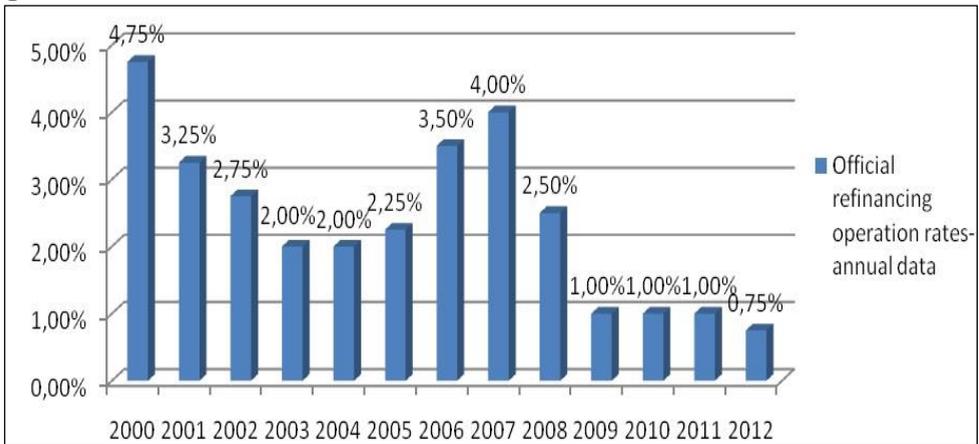
The results of eliminating the currency risk in the case of the commercial trades that occur between countries in the euro zone is an increase in the degree of commerce integration, an increased trade value between member states, as well as an increase of the foreign direct investments (FDI). The elimination of trades between community currencies resulted in a reduction of the currency cost.

The price transparency offered by the single currency points out how the euro marks the price differences between goods, services and salaries form different countries, therefore encouraging competition.

More so, the single euro currency offers a series of indirect advantages. These benefits are related to the profound changes in the behaviour of the financial markets and companies, such as: low interest rates, the structural reform, the reserve currency status and the economic growth.

The decrease of the interest rates in the euro zone follows the exercise of the monetary politics of the European Central Bank of inflation reduction and maintaining the macroeconomic stability in the countries from the euro zone.

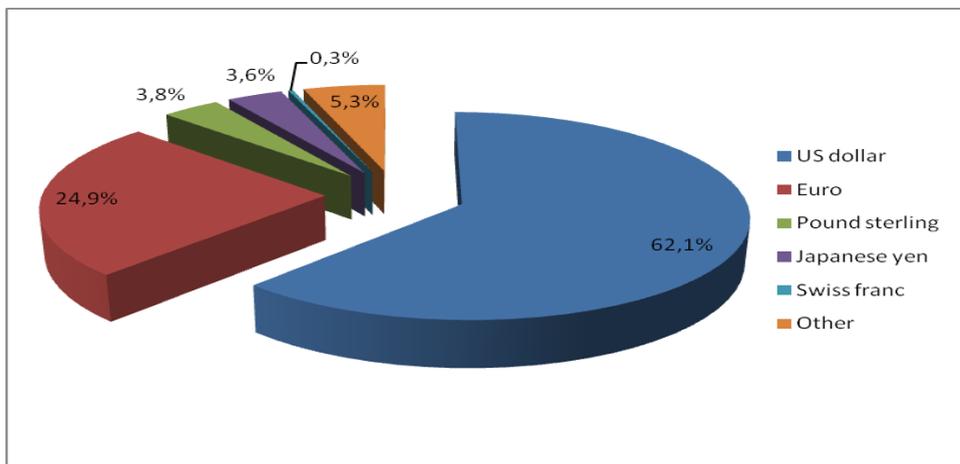
**Figure 2. ECB Interest rates**



*Source:* The author's adaptation of Eurostat data, 2013

The euro can stimulate a very necessary structural reform in Europe. The states that wish to adopt the euro currency need to adjust their economies, by fulfilling the nominal and real convergence criteria. These measures of transaction costs reduction, of eliminating the currency risk, as well as price transparency have led to large budget cuts and have triggered the development of the economies in the euro zone before they were affected by the current financial crisis.

Moreover, the euro has become an international currency in which the international funds are widely kept, ranking second with 24.9% in 2011, after the US dollar, according to the dates provided by the International Monetary Fund.

**Figure 3. Currency composition of official foreign exchange reserves in 2011**

Source: The author's adaptation of IMF data, 2013

However, the euro currency involves a series of drawbacks which the EMU aims to reduce to minimum in the future. The biggest problem that arises when a state adopts the single currency is that it renounces its right to manage the economic and monetary politics in order to intervene in the indirect economic problems.

Another disadvantage of the Monetary Union is the loss of national sovereignty. The community transfer of some monetary and fiscal components implies that certain countries with a stable economy have to accept the decisions coming from other countries, sometimes “weaker and lacking in resistance in the fight against inflation (Voinea et al, 2010, p.62)”.

Other drawbacks are constituted by the high costs of the conversion, such as those caused by the need of implementation at all levels of capable informational systems which could promptly execute transactions in euro and achieve automatic conversions of national currencies into euro.

### **2.1 Case study: The comparative analysis of the evolution of the main economic-financial indicators during 2005-2011/2012 in Estonia and Romania related to the Euro Zone average**

In order to understand that the euro currency, as the main pillar of the EMU, favours the integration and brings numerous benefits when it is adopted by states with dynamic and fit economies, we will carry out a study of the economic situation of two states which used to be behind the Iron Curtain: Estonia, which adopted the single currency in 2011 and Romania, a candidate to the EMU.

To clearly emphasize the real and nominal economic convergence of Estonia we will carry out a comparative and dynamic analysis of the main economical-

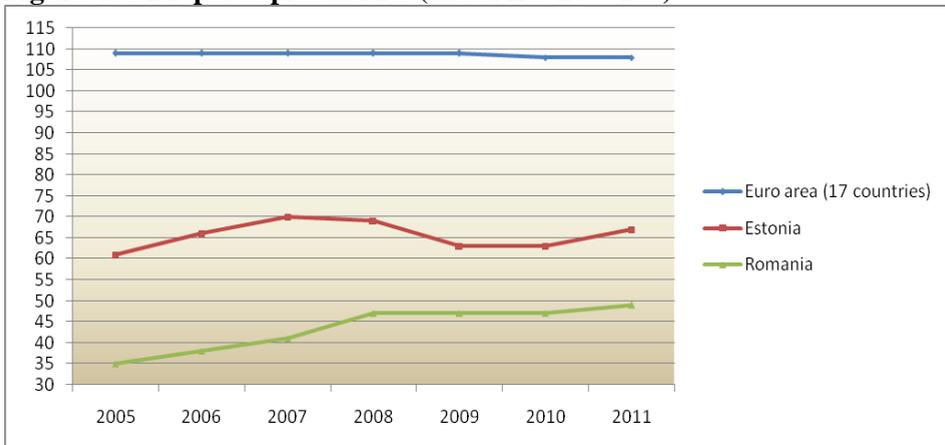
financial indicators during 2005-2011/2012. We chose this period to analyze to what extent the current financial crisis which started in 2008 has influenced the development trend. Parallel to this we will analyze the main economic indicators of Estonia, Romania and The Euro Zone in order to argue that only a strong, dynamic and fit economy can integrate successfully in the Euro Zone and can benefit from the advantages offered by the using of the single currency.

Fulfilling the nominal convergence criteria, Estonia has chosen to adopt the euro on January 1<sup>st</sup> 2011. Estonia's economy is one of the strongest and dynamic from the countries in the former soviet bloc, this also being confirmed by the evolution of the gross domestic product in the last 7 years.

As observed in the graphic, in the period before the crisis, Estonia as well as Romania had an ascending trend in the evolution of the Gross Domestic Product, the difference being given by the amplitude of the values: during 2005-2007, Estonia recorded significant values of 61%, 66%, 70% and Romania, much smaller of: 35%, 38% and 41% related to the average of the euro zone which had a constant value of 109%.

Along with the outburst of the depression, the situation changes, Estonia's GDP starts to decline only to recover in 2011 when it recorded a value of 67%. In Romania's case, the situation is different: at the peak of the crisis the GDP had risen to 47%, but it remained at a constant value until 2011, when it reached 49%. The average in the Euro Zone also knew a decline by a unit for the years 2010 and 2011.

**Figure 4. GDP per capita in PPS (Index EU-27 = 100)**



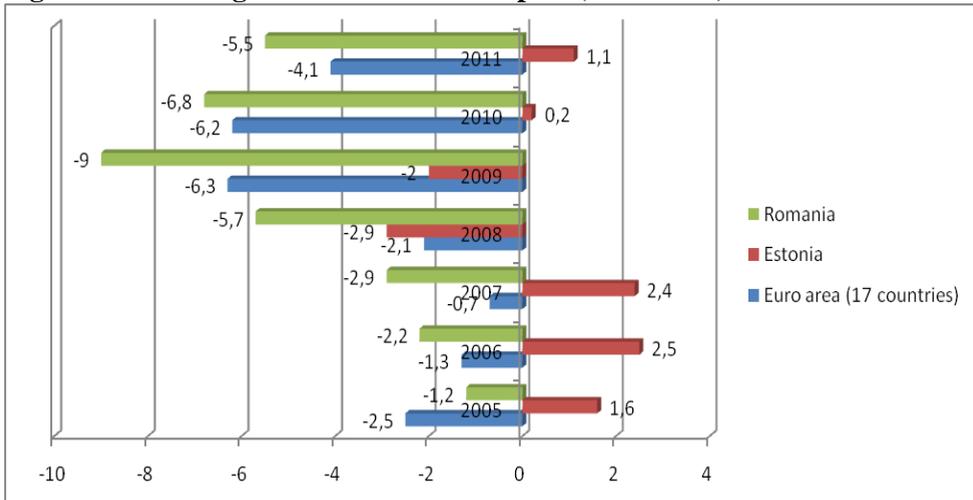
*Source:* The author's adaptation of Eurostat data, 2013

Concerning the budgetary deficit, as observed in the figure below, up until 2007 Estonia registered a surplus of 2.4%, according to the Eurostat data. This is due to the reforms in the fiscal area and the fact that Estonia doesn't issue governmental bonds (this is why the international press qualifies it as being anti-Greece). In the

next two years the situation deteriorated, Estonia confronting with a deficit while in Romania and the Euro Zone this amplifies.

From 2010 Estonia knows a surplus of 0.2% which reaches the value of 1.1% in 2011. In Romania and in the Euro Zone the budgetary deficit reaches in 2011 a value of 5.5% and 4.1% respectively.

**Figure 5. General government deficit/surplus (% of GDP)**



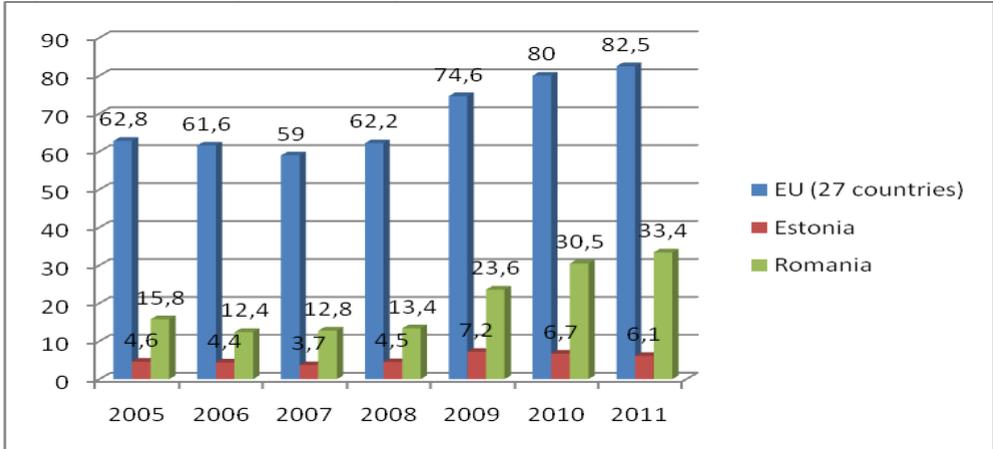
Source: The author's adaptation of Eurostat data, 2013

The current financial crisis caused the growth of the public debt all around the European Union. Still, it should be noted that Estonia is in a favourable situation (6.1%) compared to Romania or the Euro Zone, which reports from 2011 values of 33.4% and 82.5% of GDP respectively. This is due to the fiscal politics which, in Estonia's case, consists in non-taxing the reinvested profit. This way, the system of taxing and tax collecting has been simplified and the investments stimulated. The measures of fiscal consolidation in Estonia have cumulated 16% of GDP and have consisted of:

- Reducing the budget for health insurance by 8%, limiting the pensions increase, reducing the administrative expenses, the ones for defense and the subventions for agriculture, stopping the crediting for the local authorities with the exception of co-financing projects with EU funds;
- The increase of the unemployment contributions to 4.2%, the increase of the excise for alcohol, tobacco and fuel;
- The increase of VAT from 18 to 20%;
- Dividends from state-owned companies, sales of their land, adjournment of the gradual process to reduce the income tax.

Due to these measures, Estonia managed to reduce the public debt in 2011 to 6.1% of GDP.

**Figure 6. General government gross debt (% of GDP)**

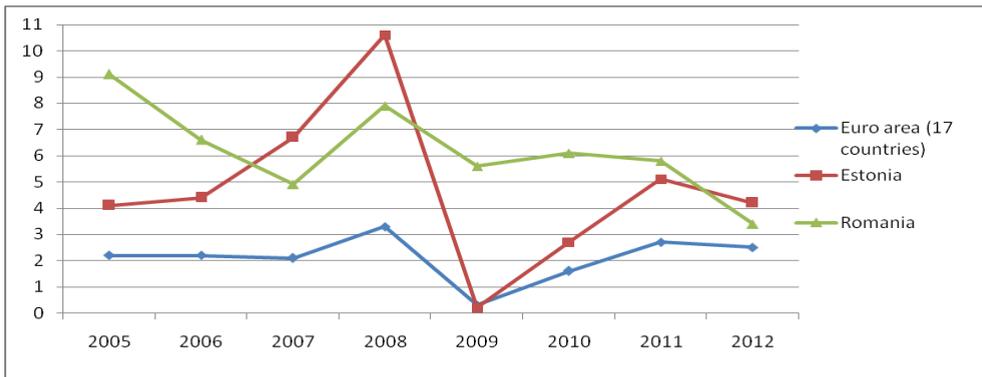


Source: The author’s adaptation of Eurostat data, 2013

The evolution trend of inflation is similar for Estonia, Romania and the Euro Zone. Estonia’s inflation knows a continuous growth up until 2008 when it reports a value of 10.6% followed by a rapid decrease in 2009 to 0.2%. Later, the inflation followed an ascendant trend reaching in 2012 at 4.2%.

This is due to the increase of the excises for alcohol, tobacco and fuel, the increase of VAT from 18 to 20% in the case of Estonia, and from 19 to 24% in Romania. We notice the evolution is the same for Romania and the Euro Zone, the differences being given by the amplitude of the process.

**Figure 7. HICP – inflation Rate (Annual average rate of change (%))**

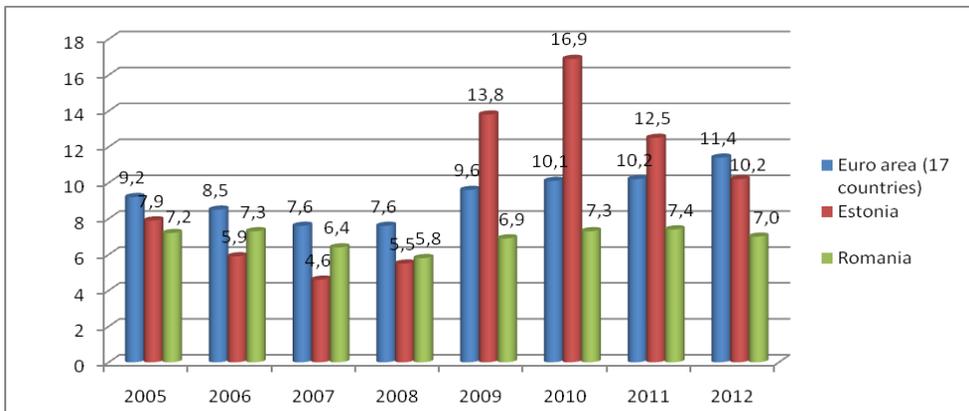


Source: The author’s adaptation of Eurostat data, 2013

The credit expansion from the previous years generated the appearance of a high number of unsustainable and low productivity jobs in the construction industry and trade. The crisis repercussions on the labour market have been observed starting with 2009 when the unemployment level had reached high levels, especially in Estonia, 13.8% and 4.2%, more than the Euro Zone, and 6.9%, more than in Romania.

The situation had worsened in 2010, so that in 2011 and 2012 the unemployment rate decreased gradually. In 2012, the Euro Zone had the highest unemployment rate of 11.4%, followed by Estonia 10.2% and Romania with 7%.

**Figure 8. Total unemployment rate - annual average (%)**



*Source:* The author's adaptation of Eurostat data, 201

The analysis of the main economic-financial factors reveals that the economy of Romania is not truly ready to adhere to the EMU. Besides the fact that Romania's GDP is almost half of Estonia's and the rest of the indicators are neatly inferior to Estonia's, the regional disparities represent vulnerability for Romania. Instead, Estonia has significant advantages like the geographical size of the country and the fact that it entirely comes under one region, NUTS 2, therefore it is easier to organize.

Estonia's argues the fact that the euro currency, as a main pillar of the EMU, brings numerous advantages: opens the economy, favours trading, attracts investments, contributes to the economic growth and development, but only under the conditions of a dynamic economy, prepared both nominally and really to adhere to the EMU.

## CONCLUSIONS

The single currency is the binder between all economies in the euro zone, it is the symbol of the European Union and, last but not least, it is the greatest accomplishment inside the Monetary Union. Theoretically, the study shows that, up until now, the Euro Zone doesn't answer the necessary criteria to be situated in the "optimum monetary zone" category, but the EMU can accomplish this objective through more fiscal and budgetary integration for all 17 member states. More cohesion at a structural, institutional, financial and bank level will determine the consolidation of the euro currency as the main pillar of EMU.

Through the analysis of the advantages and disadvantages offered by the single euro currency, we notice that there are more advantages than disadvantages, and the attitude we should adopt in order to ensure its success has to be a positive one, because every time the population lost its trust in a certain currency the final effect was materialized either in a forthcoming of a major recession, or in the countries confronted inflation and even hyperinflation.

The effects of adopting the single currency favours and deepens the integration between member states, but this demands economies that are prepared, strong and convergent both nominally and really to create an "optimum monetary zone" through the euro currency, as Estonia showed. Therefore, the EMU's expansion towards Eastern Europe is welcome as long as the states aiming to adhere to the Euroland have a fit economy to take this important step.

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## **EU CRISIS AND EASTERN NEIGHBOURHOOD RESPONSE**

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The Eastern Neighbourhood is an important area for the European Union in terms of markets, investment location, energy supply, etc. The stabilization of the area by improving conditions for doing business in both economic and political terms is a primary interest of EU members and their business communities<sup>1</sup>. There is important interdependence between the two areas in terms of trade and FDI but the development of regional integration in Europe and the former Soviet Union has been diverging. In the present situation the EU is strongly integrated internally but has only loose business integration with the countries to the East. Economic interest would demand deeper integration with the former Soviet countries or at least with some of them. But Russia is pulling those countries into another direction. The CIS have their own integration attempts like a limited free trade agreement (CISFTA). Some countries are further integrated in the Common Economic Space and have the broader aim of establishing a Eurasian Economic Union. Countries in the closer EU neighbourhood sit on the fence. The offer of the EU for them has been weak and hesitantly applied. Spreading the European regulatory practices, political institutions and civil liberties have not been very successful. In addition, the EU has not been able to prove its long-term attractiveness in terms of economic development and global competitiveness. The demonstration effect turned even negative in the recent economic crisis.

The financial crisis in 2008, the adjacent fiscal crisis and the related double-dip recession in 2008-2013 have undermined the attractiveness of the European Union to neighbouring countries. Change for the worse took place in the EU in two ways, in terms of policy-making and in terms of economic competitiveness. EU institutions and governments were hesitant to realize the depth of the crisis in the banking sector and the adjacent fiscal strain. They did interfere but were late with corrective measures and unable to address problems in their full complexity. The crisis was passed over from the financial sector to the public sector and then to the non-financial sector. A combination of bail-outs and fiscal austerity triggered setbacks in consumption and production. Following some recovery in many of the EU economies in 2011, there was a renewed setback in 2012 continuing into the current year. In this process, the EU area has lost some of its global competitiveness

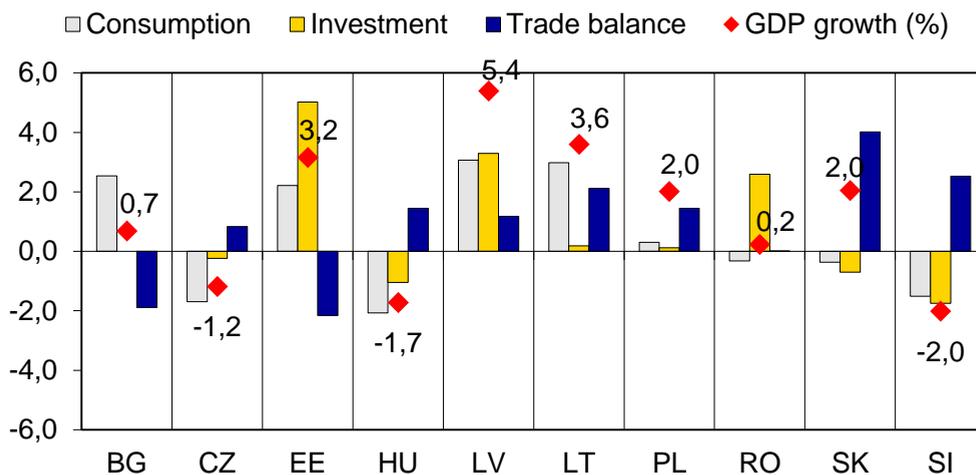
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<sup>1</sup> The importance of the neighbourhood for the future global competitiveness of the EU has been underlined in the international research project AUGUR of the FP7, the Seventh Framework Programme of the EU ([www.augurproject.eu](http://www.augurproject.eu)).

also on longer term by de-industrialization in several member states and by the blow to the financial soundness of its banks and some of its major companies.

New EU member states (NMS) profited a lot from EU membership up to 2008 in terms of economic growth, structural change and competitiveness. Several years of fast economic growth had been based on the inflow of external finances. The bubble that accumulated in the 2002-2008 period burst and led to financial deleveraging, massive accumulation of bad debts in the private sector, fiscal austerity and a decline in economic growth. External financing to high-risk countries dried up making sudden adjustments necessary. The ten NMS used to have 3 percentage points higher rates of economic growth than the 15 old EU members until 2008 but their lead declined to one percentage point as of late. Catching-up has by-and-large come to a halt with the notable exception of Poland. The situation in South-East European EU candidate and potential candidate countries (SEEC) has not shown any difference to the better, except for Turkey.

**Figure 1. GDP growth 2012 (in %) and contribution of individual demand components in percentage points**



Source: wiiw Database incorporating national and Eurostat statistics

As to the latest development, most of the new EU members performed worse in terms of economic growth in 2012 than in the previous year. GDP declined in three of them, Czech Republic, Hungary and Slovenia, which used to be regarded as success stories just a few years earlier. Weak exports and suppressed domestic demand triggered declines compared with the previous year. Elsewhere in the region, growth remained positive but was generally unspectacular, with the notable exception of Latvia and Lithuania. Prospects for the current year are hardly any better. The wiiw forecast of February 2013 predicts slightly more growth in the NMS

and the SEECs based on slightly less decline in the EU-15<sup>1</sup>. Rather poor performance in the EU and the candidate countries stands in sharp contrast to the dynamics in other ‘emerging markets’ in Asia and Latin America.

The crucial factor behind economic growth in the NMS has been the weakness of domestic demand while net exports contributed positively – despite the anaemic external environment. High unemployment and stagnant wages, coupled with fiscal austerity and household deleveraging, continue to weigh heavily on the dynamics of private consumption in most countries, with the exception of the Baltic states that are emerging from severe previous depressions. Also investment activity is suppressed by uncertain prospects and by underutilized capacities in an environment characterized by weak demand. Under these circumstances, the investment dynamics in the region has been shaped by public investment projects supported by EU transfers while private investments declined.

The prospects for 2013 are only marginally better due to somewhat less restrictive fiscal policies in some countries (Poland, Czech Republic) and a better performance of agriculture in others (Serbia, Romania). Slovenia and Croatia will continue to be in recession and Hungary might just find its way out of it. In the wider sense, the prospects of the NMS and SEEC depend on the performance of the Eurozone. Small open economies are held hostage by the excessive fiscal austerity pursued in the euro area and the sluggish progress in addressing the structural roots of the crisis. Larger countries like Poland and Turkey which do not depend that much on the development of demand in the core EU countries have been able to do better for some time but even they are slowing down due to the unfavourable external environment. The interdependence of EU countries further accelerates the spread of the crisis and there is no stopping. Some diversification of trade is possible towards the more dynamic parts of the world, but it would only have a marginal overall effect. Still, the fabric of the EU integration seems to hold despite serious strains.

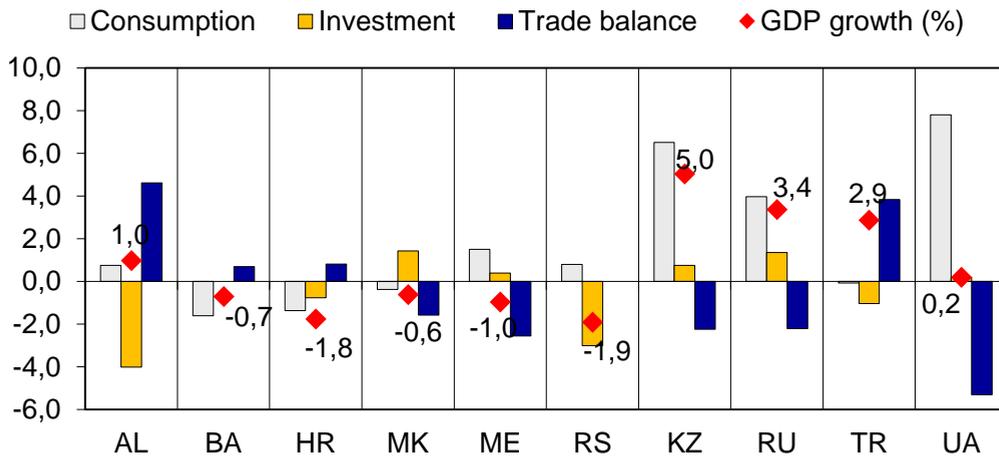
Beyond generally lower levels of economic development, the determinants of economic growth in the CIS countries are to a large extent different from those in the EU members. Among the main CIS economies, Kazakhstan’s GDP grew by 5% in 2012 primarily driven by household and government consumption. There is no slowing down in sight in the coming years, at a time when the driving force for growth may shift to investments. Russian economic growth was slowing down to a still remarkably positive rate of 3.4% in 2012 and the forecasts for the current and the following years reckon with similar growth rates. These economies are based on specific fundamentals; they rely mainly on extractive industries thus the global energy prices significantly affect export and budget revenues. Modern

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<sup>1</sup> Vasily Astrov, Vladimir Gligorov, Doris Hanzl-Weiss, Mario Holzner, Michael Landesmann, Olga Pindyuk et al. (2013), “Double-dip Recession over, yet no Boom in Sight” wiiw Current Analyses and Forecasts. Economic Prospects for Central, East and Southeast Europe, No. 11, March

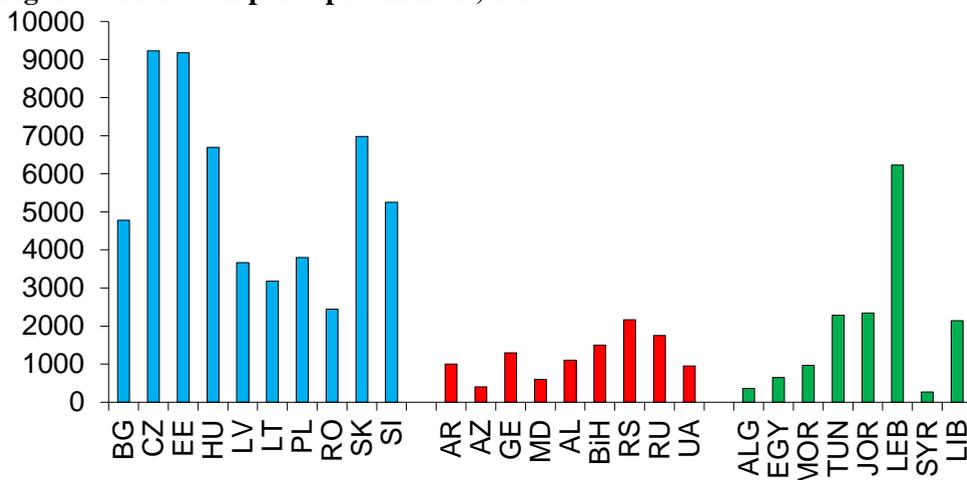
manufacturing if existing at all is grossly uncompetitive. A breakthrough in modernization and diversification of the economy, like in the NMS, has not happened.

**Figure 2. FDI inward stock, EUR per capita, in the NMS, CIS and MENA countries in 2010**



Source: wiiw Database incorporating national and Eurostat statistics

**Figure 3. FDI stock per capita in EUR, 2010**



Source: national statistics, wiiw, UNCTAD

The other CIS economies not benefiting from energy exports have been less successful lately. Unfavourable price development of metals hit Ukraine's exports

and pushed the economy into recession in the second half of 2012, but stagnated due to a boom in household consumption GDP over the whole year. Modernization and restructuring is necessary also in this country but the largely protectionist stance of the government is a crucial obstacle. Lack of competitive industries has also depressed Moldova's economy as of late. Belarus kept growing based on export demand supported by currency depreciation while suffering of very high inflation. Economies in the Eastern Neighbourhood are not only less competitive but have also relied much less on FDI inflows than the NMS (Figure 2)<sup>1</sup>. Unfavourable conditions for doing business have deterred FDI which henceforth has not been able to support structural change and competitiveness like in the NMS. There have also not been many Greenfield projects; those from the EU constitute about 60% in Russia and the Ukraine but much less in more remote countries (Table 1). European policies fostering free trade and FDI and supporting the liberalization process have been beneficial both for the Rim countries and for European companies which could expand their activities in the region. Supporting open and fair competition, and breaking local, often state supported, monopolies could increase opportunities for further FDI<sup>2</sup>. But pre-crisis sources of fast economic growth among them FDI has dried off in the NMS as well and there is a search for new stimulus of economic growth. The FDI-based development path missed by the Neighbourhood countries may not be available in the future.

**Table 1. Number of greenfield investment projects and pledged FDI from the Eastern Neighbourhood countries, 2003-2011**

	Number of EU projects	Pledged investment USD million	EU projects, % of total in the country	EU pledged capital, % of total in the country
Russia	2451	102557.4	61	47
Ukraine	582	11235.6	62	52
Georgia	96	783.4	45	20
Belarus	93	2970.9	46	72
Azerbaijan	85	14388.6	35	82
Moldova	52	305.2	55	28
Armenia	39	210.4	31	8

Remark: pledged FDI excluding estimated values.

Source: FDI Intelligence from Financial Times Ltd

<sup>1</sup> See for details: Gábor Hunya (2012), "Short-lived recovery" in wiiw Database on Foreign Direct Investment in Central, East and Southeast Europe, 2012

<sup>2</sup> See for details: Peter Havlik et al (2012), European Neighbourhood – Challenges and Opportunities for EU Competitiveness, wiiw Research Report, No. 382.

Just like Russia, the CIS as a whole is lacking progress in diversification and modernization, which may lead to a slowdown in economic growth in the medium run. The new Russian economic reform strategy of ‘achieving sustainable growth in a period of global instability’ through conservative, anti-liberal, anti-western, nationalist agenda proposed by Putin’s advisors rejects the European model of economic systems<sup>1</sup>. They plead for long-term planning, involving ‘active industrial policy’ supporting technology and growth drivers and to try to focusing on domestic state-controlled enterprises and coordinated regional policies. As a response to unattractive EU policies one can thus observe a reversal in the policy stance of the EU’s most important neighbour.

European integration has brought huge benefits for its members despite the current crisis. The crisis is mainly the result of the monetary integration and not of the free movement of goods, capital and labour underlying the economic integration. The European institutions are given excessive power in terms of regulation they can impose to safeguard the principal freedoms. The monetary union has been an attempt to go beyond the original framework of integration by introducing a common currency. Many Eurozone members did not manage to keep up with the competitiveness under the fixed exchange-rate regime and are now undergoing painful adjustments. The stronger member states are driving this adjustment while they also initiated measures to set up crisis funds and a common banking supervision. Europe-level coordination and policy making has still been confined to areas of crisis management and has proved even less successful in driving global competitiveness. The EU 2020 project sets the framework in terms of goals and tools to improve competitiveness and cohesion, but one cannot change much with a mere 1% of GDP. Still, the transfers from the common budget are a major benefit for the NMS amounting to 2-4% of their GDP in 2007-2013. Unfortunately, the 2014–2020 budget will be smaller than the previous and conditions to access it will be more restrictive. But an important step forward is the use of more funds for the sub-heading ‘Competitiveness for growth and jobs’. As a result, the attractiveness of EU membership remains lasting in financial terms even if some NMS, most prominently Romania, have not been able to adjust their domestic institutions to fully benefit from available funds.

While future membership may be attractive for any neighbouring country striving for candidacy from a financial viewpoint, the benefits offered are too meagre, and the institutional and legal requirements are quite strict. Conditions of membership are very far from the current practice in the Eastern Neighbourhood. Running a political system and economic institutions in a transparent and law-based way seems to be a major challenge for the NMS. It is even more so for neighbouring

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<sup>1</sup> Havlik, Peter (2013), “A revival of industrial policy as a growth model for Russia?” wiiw Monthly Report, No. 3. pp. 5-6.

countries where universal rules of democracy and free market are alien to those in power. Economic systems in the Eastern Neighbourhood function to a large extent based on discretionary agreements and favouritism. The EU applies soft tools and inadequate financial means to generate changes. Soft power is fine but unsatisfactory to lure any of the Neighbourhood countries, with the exception of Georgia, to the EU. As a result, economic expansion and market access of EU companies keep facing difficult obstacles while the Neighbourhood countries remain hindered in accessing and acquiring new technologies.

# CAPITAL GOODS AND CONSUMER GOODS INDUSTRIES DURING THE BUSINESS CYCLE

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**Abstract:** *An important feature of business cycles refers to the different behavior of capital goods prices compared to consumer goods prices. During economic expansion, the growing number of investment projects increases the prices of capital goods in a faster pace compared to the increase of consumer goods prices. At the same time, capital goods are more strongly affected by the crisis while consumer goods seem to have a somehow privileged position (major retailers continue to make profits from sales, even in periods of economic contraction). Finally, during recession, prices of capital goods are reduced in a faster pace than prices of consumer goods. In other words, capital goods prices are affected to a greater extent by monetary fluctuations, compared to consumer goods prices.*

*This paper aims to highlight how monetary expansion from 2003-2007 produced distortions in the structure of production of the major economies - the United States and the European Union.*

**Keywords:** relative prices, capital goods, consumer goods, structure of production

## INTRODUCTION

The distinctive evolution of capital goods and consumer goods prices is hidden behind the uniform treatment of prices by using general indexes. As argued Gottfried Haberler (2006, p.41) „the price level is frequently a misleading guide to monetary policy and that its stability is no sufficient safeguard against crises and depressions, because a credit expansion has a much deeper and more fundamental influence on the whole economy, especially on the structure of production, than that expressed in the mere change of the price level”. A much more accurate picture of reality is provided through relative prices, these signaling with higher accuracy the formation of gaps between consumer goods prices and capital goods prices during a business cycle. Relative prices are those that provide information about the way the monetary expansion directs resources between different economic sectors. In this respect, the present paper highlights the relative increase in investment in the capital goods industries in the period of economic expansion and their relative contraction after the outbreak of the business crisis.

## 1. CAPITAL GOODS, CONSUMER GOODS AND RELATIVE PRICES

Different rates of price increases translate into changes in the structure of production, and this aspect is often overlooked when talking about inflation. First, the additional money is not distributed uniformly in the economy, as David Hume imagined the case of individuals who find doubled pocket money in a morning. Money is injected in economy through certain points, for example, we assume an increase in government investment in health, additional spending on infrastructure development, increases of administration' staff salary etc. For each situation, we speak of favoring some social categories over others, which enjoys increases in their revenues. If more money is allocated by government to the health system, we find an increase in revenues of doctors, nurses, medical representatives, medical devices distribution companies etc. Additional revenues translate into increased demand for certain goods and services, an increase of *certain* prices. This is the common feature of all operations to inject money in certain areas of the economy. Prices rise, but this occur differentiated and successively, depending on the orientation of each group of consumers who first benefit from supplement incomes. Second, economic expansions are, par excellence, favorable for investment in distant from final consumer projects.

A reduced interest rate stimulates setting up projects that would not be tempted at the natural rate of interest. Investment in industrial activities such as iron manufacturing, petroleum refining, construction machinery for heavy industry etc. implies an increased need for capital goods and time. Overbidding for existing capital goods will increase their prices. When projects do not have the necessary funding to be finalized, investors are forced to stop. Unfinished construction, industrial components and systems that have not resulted in final goods, while the demand is no longer fed by monetary supply growth, causes a drop in capital goods prices.

In terms of consumer goods prices, we believe that their main problem is determined by supply and less by demand. Individuals act and consume under their time preferences. This preference for present and future goods is expressed through the interest rate. When the interest rate is reduced as a result of credit expansion, the message perceived by entrepreneurs indicates a reduction of time preference, urging them to engage in investment projects, to increase the supply of capital goods

This will result in a diversion of factors of production from consumer goods industries to capital goods industries. Basically, monetary expansion induces a change in the consumption pattern, from present consumption to future consumption. The problem of this new pattern is the fact that it is not supported by individuals' real preferences and by their real accumulated resources.

Low investment in consumer goods industry causes an increase of consumer goods prices, growth also fueled by easy access of individuals to consumption credits. When access to additional sources of funding is limited, the prices of all

goods begin to deteriorate, with the observation that consumer goods prices do not meet the same kickback as the prices of capital goods. The reason is the fact that individuals have not changed, in fact, their consumer preference. They prefer present consumer goods to future consumer goods (which find their expressions in the preference to save for invest). As a result, during economic depression, consumer goods prices are affected to a lesser extent compared with the capital goods prices, simply because the individuals real time preference. Market forces have the last word. The demand cannot be maintained indefinitely by credit without a real saving, therefore, an increased preference for time.

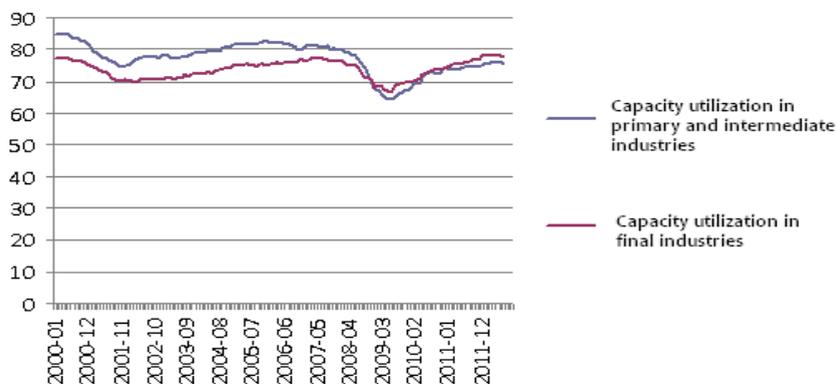
### **3. THE STRUCTURE OF PRODUCTION DURING EXPANSION AND DEPRESSION IN USA AND EU**

The apparent prosperity supported by the monetary resources availability during the 2003-2008 periods contributed to increased investment in different sectors of production. Of these, a privileged position had the real estate and capital goods industries. Reduced interest rates stimulated investment in sectors far away from final consumer, where the necessary time of production is higher. To provide an overview of the resources allocation between different industries and production processes, we used the flow of investments by sector and the industrial capacity utilization.

We could not get a unitary image of different national economies structures of production because of their different measurement units. Most countries calculate the total degree of industrial capacity utilization, without a breakdown by sectors or stages of production. For our study, total industrial capacity is irrelevant as long as it does not capture the evolution of distinctive capacities used throughout different stages of production. We tried to fill up this information through a reference to the structure of capital goods and consumer goods prices.

Low interest rates in the United States after 2001 resulted in an increase in the number of productive processes in primary and intermediate stages of production. One indicator of this is the industrial capacity. It expresses the extent to which an economic sector uses its production capacity. Industrial capacity utilization rate provides important information regarding resource allocation between productive activities. In the U.S. economy, the monetary expansion coincided with increased industrial capacity utilization in distant from the final consumer sectors. The primary processing industry recorded a peak of about 83% at the end of 2005, while the final production processes industry reach a maximum threshold of 76% over the year 2007.

**Figure 1. The capacity utilization in primary, intermediate and final industries, USA**



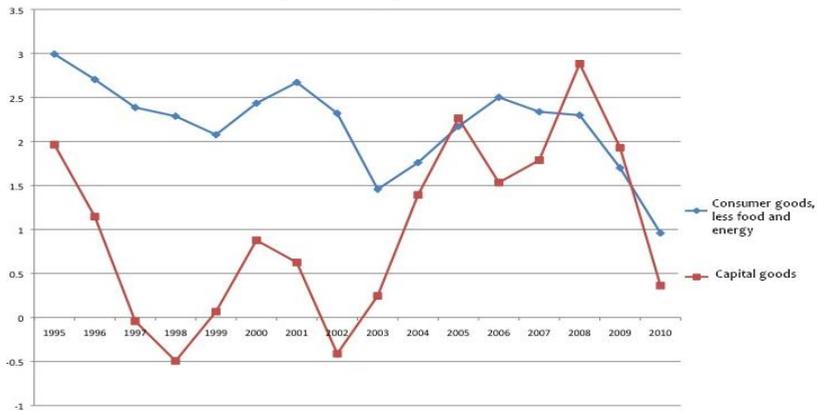
*Source:* own processing after “Industrial Production and Capacity Utilization”, Board of Governors of the Federal Reserve System, <http://www.federalreserve.gov/releases/g17/current/>

Monetary expansion, low interest rate and the relative increase in profits led to an expansion of capital-intensive production processes, located in the initial stages of production. In 2008, the industries with the highest rates of revenue growth were the manufacturing of pipes (27.3%), engineering and construction (26.8%), petroleum refining (25.2%), mining and manufacturing of oil (23.9%). All these sectors are part of the primary industries, far from the final consumption. Their extension supposed lengthening the productive structure in the United States, on the Hayek's triangle model. By comparison, food intended for final consumption grew by only 9%.

Increased investment in capital goods industries, while maintaining a high preference for consumer goods, led to increased competition for resources, resulting in higher prices. Capital goods prices increased due to increased demand to initiate new production processes or to expand the existing ones. Investments in long production processes have limited the supply of goods for present consumption, which made their price to rise.

As a result, the capital goods prices increased during the economic boom due to increased demand, while consumer goods prices rose due to relative supply restrictions. The image of these upward trends in capital goods and consumer goods prices is shown below.

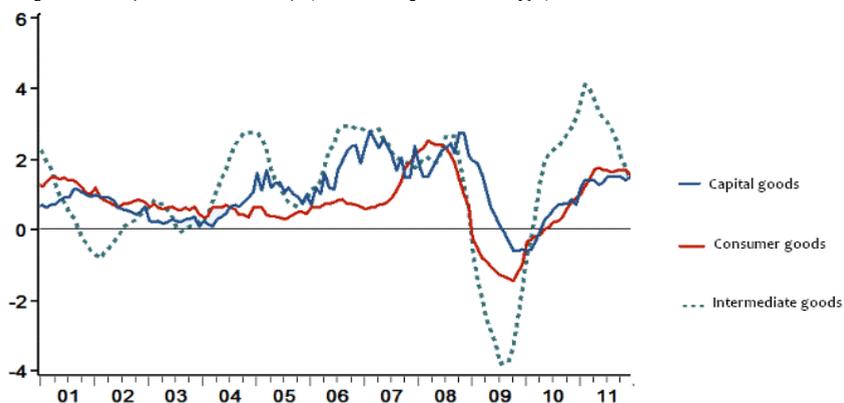
**Figure 2. Evolution of capital goods and consumer goods prices in the United States, 1995 - 2010, (annual percentage)**



Source: Matthew Melchiorre, „Boom and Bust Madness: An Empirical Look at the Fed’s Dollar Binge”

It is noted that capital goods prices had a much higher growth than consumer goods prices, during the economic expansion started in 2003, knowing a sharper decline after the outbreak of the economic crisis in late 2007. A similar situation was for the prices in the European Monetary Union.

**Figure 3. Evolution of capital goods and consumer goods prices in the European Monetary Union, 2001 - 2011, (annual percentage)**



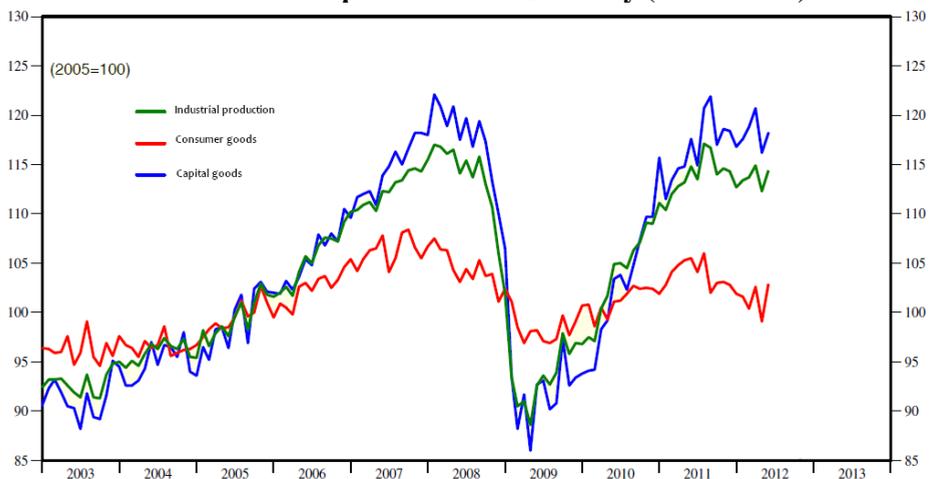
Source: Robert Brusca, “PPI Trends in EMU”, Haver Analytics, 2 February 2012.

Prices of capital goods and intermediate goods (used to produce goods for final consumption) grow up with a higher rate than consumer goods prices, during

economic expansion. Between 2008 and 2009, economic crisis resulted in a reduction of all prices, but in a much steeper way for intermediate goods prices.

Growth in production of capital goods in Germany exceeds that of consumer goods in 2005 - 2008. In early 2009, the production of capital goods represents only 85% of its value in 2005, while production of consumer goods reached the same level in 2005. The resumption of economic growth along with monetary stimulus in 2010 kept the same distorted report between the production of capital goods and consumer goods, indicating the absence of corrections that would have to occur in the recession.

**Figure 4. Evolution of industrial production in Germany (2003 - 2012)**



Source: „Germany: Industrial Production”, Yardeni Research, Chart Collection for Morning Briefing.

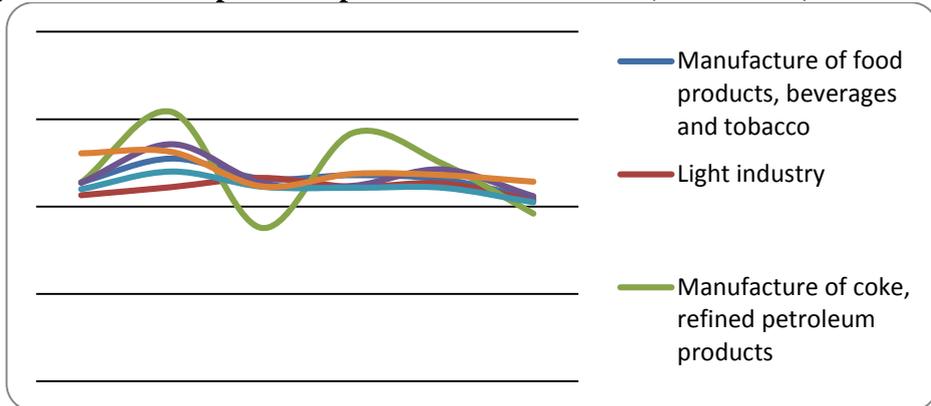
The economic boom created by expansionary monetary policies imprinted a fast and distorted pace to the real economy. Changes in the structure of production, by increasing the capital goods industry, is the result of easy access to monetary resources. The interest rate offered false economic signals on the availability of real resources. Their insufficiency made capital-intensive industries being most affected by the credit contraction. Less steep contraction of activity in consumer goods industries confirms that consumer time preference supported the demand for final goods.

#### **4. THE PRICES EVOLUTION IN UKRAINE AND REPUBLIC OF MOLDOVA**

The interest rate in Ukraine has decreased from over 30% in early 2000 to 8% in 2008. Monetary expansion was consonant with a rapid pace of price growth in

distant from final consumers industries like manufacture of coke and refined petroleum products or chemical and petrochemical industry. Prices in consumer goods industries, like manufacture of food products and light industry, fluctuated in a lesser extent, supported by the true preference of individuals for current consumption.

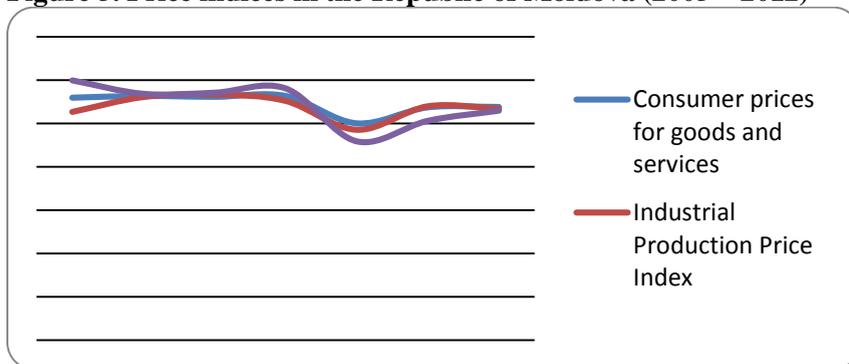
**Figure 5. Industrial producer price indices in Ukraine (2007 – 2012)**



*Source:* own processing after data provided by Ukrstat.org - State Statistics Service of Ukraine documents publishing.

In Moldova, raising interest rates, from less than 15% in 2007 to 20% in 2008, led to a general lowering of the price indexes, but in a broader way in the Construction Price Index. In this case, also, the Consumer prices for goods and services fluctuated in a lesser extent, on the basis of the same individuals' preference for the current consumption.

After 2008, the interest rate began to decline up till 5% in 2010. The relative prices reversed their trend, with a faster pace of growth in the Industrial Production Price Index and the Construction Price Index. As we have pointed throughout this paper, the distant from the final consumer industries are more sensitive to interest rate changes, recording sharper fluctuations compared to consumer goods industries.

**Figure 5. Price indices in the Republic of Moldova (2005 – 2012)**

*Source:* own processing after data provided by the National Bureau of Statistics of the Republic of Moldova.

Even if we talk about advanced economies or less developed economies, the monetary expansion results in the same distortion in relative prices, expressed in distinctive evolution of capital goods prices and consumer goods prices.

## CONCLUSIONS

The credit expansion during the years 2003 - 2007 caused the failure of interest rate to transmit information about individuals' time preferences and the failure of prices in their role of allocating scarce resources to industries that could best meet the consumer needs. Important real resources were diverted from other sectors toward industries of construction, real estate, equipment and materials, mortgage loans and many other related fields. Trying to force the economy to produce beyond the limits imposed by the existing resources and the consumer preferences was an error. The real economy operates according to the laws of demand and supply, in the rhythm of the individuals' actions. Although a painful process, the depression plays a purifier role, to eliminate inconsistencies created by artificial boom. The economy can resume growth only when the correlation between its productive structures and the real consumer needs is restored.

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## USAGE OF INTERACTIVE AUTHOR'S TECHNOLOGY "DESTINATION" TO IMPROVE THE PROFESSIONAL COMPETENCE OF FUTURE ECONOMISTS

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**Abstract:** *The professional competence of future specialists must meet the requirements of the competitive environment, such as: professionals have to be educated and able to further learning, creative cooperation and teamwork, to have communicative skills, analytical thinking skills etc.*

**Keywords:** professional competence, communicative competence, interactive education, interactive technology, language environment

According to the National Doctrine of Education Development in Ukraine the precondition for establishing a developed civil society is the preparation of educated, moral, mobile, constructive and practical people, cooperative and intercultural, who are proud of their country and responsible for its fate and its socio-economic prosperity. One of the priority areas of education is the international cooperation and integration in the field of education, namely the output of education attained in Ukraine on the world market of educational services, enhancement of international cooperation, participation of educational institutions, scientists, teachers and students in projects of international organisations and communities (State and Education, 2001). So, mastering intercultural foreign language communication, which involves the developing of communicative competence, is one of the components of professional competence of professionals.

**Analysis of recent research and publications.** A lot of attention is given to the problem of developing of professional competence of economists. Therefore, V. V. Vasylevych considers the problem of formation a professional language competence as one of the constituents of the intercultural communication in the context of training the future professionals (Vasilevich, 2003), the theoretical and methodological principles of professional competence are highlighted in work of M. V. Vachevskyy (2005). L. M. Dybkova (2006) stresses the importance of an individual approach in training the professional competence of economists, H. E. Cheporova (2010) examines the application of situational method in teaching for professional competence of students-economists and others. But the use of author's technology "destination" in teaching for professional foreign language competence to follow up in European communication and global labor market has not been the subject of separate research.

**The purpose of this article** is to examine the usage of interactive technology at English lessons on the feasibility of its use in teaching for professional language competence of students-economists as a way of foreign language communication and the acquisition of professional competence of future specialists.

To achieve the above mentioned objectives we have set the following **tasks**:

- To determine the nature and aims of the new author's technology "destination";
- To consider the structure of lessons using this technology;
- To highlight the advantages of this technology in learning a foreign language.

**The main material.** The dynamic rhythm of life, increasing mobility and speed in all its spheres dictate students-future professionals their demands: the same speed in mastering the knowledge, abilities and skills, the ability to further learning, rapid response to changes in the surrounding world and so on. Implementation of these tasks is impossible without the usage of individually oriented modern educational technologies.

Search of effective methods of teaching a foreign language, which will give an opportunity to get maximum results in the shortest time, dynamics and mobility in a learning process, reflect the individual characteristics of students, encourages creative teachers to work out new methods and technologies in teaching. In our opinion, the author's technology allows teachers and students take a creative approach to the learning process, increases their motivation and interest in the learning process, which can significantly improve the results of learning a foreign language. Thus, the "destination" technology made it possible for us to see that the teachers' interest in the creative teaching process and the same interest of students give positive results. The author's technology is a creative process that cannot be limited by any frames or requests, and is oriented on the achievement of a special result. Thereby, we suppose that the usage of the author's interactive technologies meets the needs of modern educational process.

“Interactive (“inter” – mutual, “act” – to act) education is a special form of action; it is a dialogue education during which an interaction of a student and a teacher is taking place” (Pometun, 2004, p.4). An interactive educational technology is a form of a special organisation of an educational process when a student does not have an opportunity not to participate in the collective cooperation, in the educational process based on the interaction of all its members.

The appearance of the interactive technology “destination” was caused by the method “at stations”. The development of this method was handled by many foreign scientists and today the issue of education “at stations” is considered in the works of K. E. Bezukladnikov, M. G. Zasedateleva, E. N. Nelzina. The main idea of this method is in the active, differentiated and unassisted education that allows to learn new facts and to revise the ones that had already been learnt. The main condition of the educational process organisation with this method is providing students with all the necessary materials and instructions. The main principles the education at this

organizational form is based on are the principle of integration, the principle of action and independence of a student in the educational activity, and the principle of combining individual and team work.

The main idea of the “destination” technology is in the special way of educational process organization when students are divided into groups, each of the groups works at a “destination”, supervised by the teacher and moves to another “destination” (another teacher) after the completion of a certain task. By “destinations” are meant several lecture rooms, depending on the number of groups of students.

One of the most important conditions during this type of educational process organization is the same period of time at each “destination”. The topic of the lesson, information that will be learnt and the type of tasks are discussed by all the teachers, working at each of the destinations. This technology combines the work of students and teachers. The principles of action, integration, cooperation, combination of individual and team work are the basic principles in this organizational form of education.

The structure of the lesson, using the technology “destination”, depends on the several factors, such as:

- topic of the lesson;
- type of the lesson;
- level and group organisation;
- skills, that are going to be improved.

The topic of the lesson should be the same at all points, but there is another variant of the lesson when one of the items of some wide topic is examined at each destination, such as: aspects of Management, Personnel, Strategy, Finance in the context of the general topic Marketing or Economy of the UK, Economy of the USA, Economy of Ukraine in the context of the general topic Global Economy.

If this lesson is dedicated to new information study, students should move destinations in definite strict order depending on the stages of the lesson, namely:

- point A – students’ knowledge activation;
- point B – new information study, new knowledge acquirement
- point C – an activation of abilities and skills that are developing.

If this lesson is dedicated to a knowledge summarizing, working in any sequence is possible, students can choose the next destination. The principle of students’ independence is also taken into account in this form of organisation.

The lecturer can suggest different in complexity material for either one group or another depending on foreign language level that is the technology is taking into account individual students’ peculiarities. Students in one group may have different level of foreign language, in this case the conditions of the educational process will approach the conditions of the real circumstances, and the students get additional motivation to improve their language level.

Destinations can be organized taking into account skills that are developing, in other words every tutor is working on development of a definite group of skills (reading, listening, writing, speaking skills).

Among technology privileges one should mention the following: dynamism of educational process, students' opportunity to listen not to one, but to several teachers at a time, to learn new information and to revise in different interesting ways during the lesson, to develop team working skills, to cooperate, to compete between groups, to react quickly in the language environment, possibility to use it both at foreign language lessons, and at individual lessons, to embrace a large size of information.

**The conclusions from the following research and the perspectives of further researches.** Interactive technology "destination" is a new experimental technology, which is used with the aim of communicative competence improvement as a component of specialists' professional competence. The possibility of use of different forms ways and methods of work, perception of several teachers' speech at a time, dynamism and quick adjustment to changes in language environment give an opportunity to talk about technology effectiveness, to achieve higher results in the educational process.

**Summary.** The authors of the following article study the essence of interactive author's technology "point of destination". The factors have been pointed out, which the whole structure of the lesson depends on. The conditions of educational process organization at the English lessons are described. The authors point out the privileges of technology usage while working with students - future economists at the English lessons. Among privileges the dynamism of educational process is highlighted, as well as possibility of different forms of work usage, development of team work skills.

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# THE DEVELOPMENT OF NEOLIBERAL THEORY IN THE UKRAINIAN ECONOMY

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**Abstract:** *Nowadays, as a result of nearly twenty years of social and economic reforms, our country faces another historic choice. Now the society experiences an extremely unstable situation, in which many serious social contradictions are not resolved and continue to grow, including latent form. The reasons for that are incomplete and unsuccessful reforms, which were intensified with global economic crisis. Ways to solve these contradictions, deliberate or spontaneous, mostly depend on their awareness and scientific understanding, as well as practical measures of reforming circles.*

**Keywords:** neoliberal theory, realization of the neoliberal theory, Evolution of liberal idea, liberal mainstream, economic liberalism.

## 1. REALIZATION OF LIBERAL IDEAS IN THE UKRAINIAN ECONOMY

Today every impartial observer can see how uncritically borrowed and implemented in practice liberal idea has influenced the real state of affairs in the economy of our country.

By itself, the liberal idea attracts to its simplicity. This imaginary simplicity of its basic postulates and visible economic success of early 90-ies in developed countries, with dominant neoliberal ideology, became significant cause of its uncritical borrowing.

It was believed that the liberalization of prices and free choice of economic activity had to balance the markets by the balance between supply and demand. But this is only the first step. Next step is privatization, which was to direct the actions of entrepreneurs at the production of those goods for which there was a great unsatisfied demand, and therefore at profitable investment of private capital. Over time, this has to lead to structural changes in the industry and bring the production of goods in line with market demand. Severe budget constraints and free prices had to make private firms restructure their investments and production to meet customer needs. All this would contribute to an efficient allocation of resources.

According to the reformers, the openness of the economy was to facilitate the establishment of market equilibrium prices and promote the integration of domestic enterprises into international competitive space.

Today the results of liberal politics in Ukraine are poor. The most important problem of reforming the national economy on the principles of liberalism is that market mechanisms did not lead to structural changes, which we need to meet the market demand. On the contrary, the Ukrainian economy has undergone tremendous structural distortions. Industrial decline became general not structural. The fall in GDP reached 62% of the 1990 level. This is much higher than in Russia, and even more than in Central and Eastern Europe.

New incentives generated by liberalization haven't freed competitive forces. Instead, inverse trends have occurred: strengthening of monopolism and unregulated openness of economy. Entry to the world market economy exposed the inadaptability of the majority of domestic enterprises to international competition neither in organizational nor technological sense. The nomenclature, quality and price parameters did not meet international standards. Particularly, there is a difficult situation in small towns and villages, deprived their former economic base - the city-forming enterprises. Also, collapse of the existing settlement system occurred, which is unprecedented in world history. The competitiveness of the domestic industry was destroyed and the chances of its reconstruction were illusory. Structure of the Ukrainian economy does not meet the needs of the domestic market. Consumer and investment demand was poor. Ukrainian people remain one of the largest nations in Europe.

In addition, liberal course of reforms created such problems as chronic inflation, underdevelopment of the domestic credit market, "escape" abroad of labor force and capital, mass corruption, obvious and hidden unemployment, decline in living standards of majority of the population, the moral degradation, huge social differentiation, the continuous reduction of the population.

Materialization of liberal idea in Ukraine is a kind of capitalist model that was formed in our country. It is deprived of positive historical quality which is typical for Western models of capitalism - the ability in quick and qualitative development of the productive forces. To understand the fundamental defect of the Ukrainian capitalistic model, it is necessary to remember the source of its origin, its material and spiritual principles. The origin of this model comes from the process of privatization of state property, which was taken almost for nothing, not for personal savings of owners.

Ukrainian capitalism - unlike his elder brother in other developed countries - hasn't passed the stage of free competition and immediately has emerged as capitalism of a few large corporations in all key industries, while small and medium-sized business in the national economy occupies a disproportionately narrow sector. This model, which is typical for the domination of several large companies that control the market, divide it among themselves and set prices, in the language of economic theory is called "capitalism of oligopolies," and in our post-Soviet terminology - "oligarchic capitalism".

Uneven noncompetitive prices are set with this economic system, i.e. prices exceed competitive, which are the result of market forces. Their increase is not conditioned by increase in demand and costs but is the result of companies' decision-making.

A typical example is pricing for gasoline and food on the domestic market, which is the result of oligopolistic pricing in sphere of production and product sales for which there is a stable domestic demand. A similar situation can be observed in other industries.

Thus, the oligopolistic structure of the economy is not only a factor for price increases (and thus inflation), but also the reason for inhibition of the investment and consumer demand, and ultimately for economic slowdown.

Oligopoly has become a major obstacle for innovation development and qualitative transformation of the economy. High profit-making of oligopolistic structure does not generate interest in the modernization of its production facilities, the development of new technologies and industries.

The current industrial structure of the national economy with bias towards raw material industries and excessive dependence on external markets is "heritage" of the Soviet period as well as a consequence of a sharp reduction in demand for metals and chemical products in the domestic market. The domestic capital for almost two decades of its existence did little for creation of new industries. We can mention only mobile telephone and major retail networks. And these new sectors were created mainly by foreign capital, which is interested in its product promotion (phones and consumer imports) into the Ukrainian market.

Negative trends in the industrial structure of the national economy also arise from lower-profit areas in the domestic market, while the profitability of export industries is 2-3 times higher than the average level of the whole industry.

While there is enormous differentiation of branch profits in our country, the existing structure of the economy won't change. Therefore, it is necessary to equalize sectorial profitability. However the market mechanism won't bring the economy out of this structural bias. In this case, the reliance on the internal forces of the market is illusory in view of its oligopolistic structure.

So now the task is precisely to correct these structural distortions, which are caused by the imperfection of the market. It is an axiom of modern economic theory. But it is necessary a new economic model for its solution, and therefore the question arises: which model do we need for the Ukrainian economy? What criteria must it meet? Why should the liberal model be modernized? The model which was realized in the Ukrainian economy and which has so many supporters. What is a liberal idea in terms of content? Let us try to continue the discussion on this issue.

## 2. EVOLUTION OF LIBERAL IDEA

The historical experience of socio-economic transformation shows that their success and effectiveness depend on a particular ideological doctrine, which represents the interests of a large part of society.

It must be submitted to the main ideological value guidelines, shared by the majority of citizens. It is when there are common interests of citizens, there may be a certain ideology. When ideology is imposed from the top, in favor of the interests of certain social forces, it becomes a perverse form of social consciousness, which do not reflect reality adequately.

All sorts of arguments about "deideologization" of all forms of social and economic life are only the evidence of historical exhaustion of the values that existed in society. Such processes demonstrated a change of ideological paradigms: rejection of dogma and values of Soviet ideology and its replacement with a new liberal, although it was presented as "deidealization" of social life. In fact, these processes showed the historical exhaustion of false forms of social consciousness.

These forms of social consciousness were launched by the revolutionary events of 1917, when, according to the existing national traditions not real developed socio-economic system was borrowed but scientific concept, based only on forecasts about the future of developed capitalist countries. This concept has become the theoretical basis for the development of the ideological doctrine of a new society, called "socialism." The experiment, which required tremendous efforts and huge sacrifices, has failed, and the ideological concept was erroneous, that has been confirmed by the whole course of historical development.

The collapse of socialistic values and ideals did not mean that society had to live without a certain ideology. There are no voids in society, just like in nature. In place of the missing values and ideals of socialism were new that reflect the conflicting interests of those social groups which led economic realized in the early 90's. All areas of social life (economy, education, culture, etc.) were exposed to a new ideology that was "concentrated expression" of a policy of new associations, movements and parties.

Evolution of the socio-economic system and basic ideological doctrines of the former Soviet Union coincided with the dominance of liberal ideas. The collapse of the communist idea reinforced in the minds of millions of people an idea of the triumph of liberalism in the world. Famous American philosopher Francis Fukuyama thought about "global liberal revolution" (that covers more and more countries and transforms them according to a "universal model of development") and the absence of ideological "viable alternatives." In the opinion of Francis Fukuyama, "won not so much liberal practice as a liberal idea."

If we talk about the socio-philosophical characterization of the term "liberal idea", we face, at least two questions: what is the idea behind its definition? Why

should global capitalism, with all its features, be considered "a victory of liberalism"?

Answering the first question, we should remember that, by Hegel's definition, idea is a "unity of the ideal and the real," "finite and infinite," "affirmation and negation", i.e. "the possibility that in itself has its own reality" because it is a "process". If you stay within this definition and make an attempt to answer the second question (why has liberal idea fully unfolded itself in the forms of global capitalism that still exist?). It should be noted that essentially modern liberalism has become the ideology and practice of modern capitalism. In other words, modern capitalism is a subject embodiment of liberal ideas and the "end of history", according to Francis Fukuyama. The liberal idea was not only embodied, not only dissolved but it also exhausted its potential in modern capitalism, its events and facts. Thus, it is not able and not willing to criticize capitalist reality. There was a time when liberalism played the driving force of the revolutionary transformations that took place in the system of capitalist economy in the XVIII-XX century. It's about liberalism in the center of which is the concept of "property". According to L.von Mises, this concept defines the essence of liberalism.

The historical context of liberalism emerged in the struggle with the bourgeoisie of the landed aristocracy, the peasantry, the monarchy and ochlocracy. Already then, there were earlier forms of liberal ideas (mainly related to the "sovereignty of the individual," "natural human rights," "steadfastness of private property"), which created moral, legal and other conditions that contributed to the formation of capitalism. In turn, the development of capitalism contributed to the extension and consolidation of liberalism.

When the struggle between the bourgeoisie and old regime for equal capabilities ends with its victory, then we need social counterbalance against the rule of the bourgeoisie. If they are not, then, according to Adam Smith, the "common ideals of" freedom and equality can be forgotten. In "An Inquiry into the Nature and Causes of the Wealth of Nations," Adam Smith points out that we should not trust traders and merchants, they always cheat society, but you can create a mutual balance of conflicting interests so that their sum works for society's needs, not for selfish class. So, proponents of liberalism and democracy slip through this large and highly liberal opinion. It is necessary to determine in which way social groups with different interests, so can control one another that none of them can fully realize their selfish interest. In the conclusion for section 11 of mentioned study A. Smith calls society for vigilance with regard to a class of merchants and industrialists, always inclined to "mislead society and even to oppress it."

That is, by Adam Smith, the normal legal state, the normal market economy that works for society rather than individual corrupt oligarchic clans. So, Adam Smith raises questions about the limits of moral principle "1aI58eh-Haihe" and considers it only as one of the possible types of economic order.

But in a country with dominant primary sector, movement towards legal state is only possible if the logic of "mutual deterrence" operates. Raw resources are easily controlled by narrow ruling group that is actually a monopolist of power and control over cash flows. It is much harder to create a system of balancing here. This question, again, is politically very specific. Could we in such circumstances, no matter how favorable they were, create an effective control system over oligopolistic structures? We need such a system of control, which would prevent the oligarchic clans that control the raw materials and energy resources from doing what they want. Thus, liberalism is identified with capitalism idealized as a system of pure free competition, and represents only one of two trends of liberalism, which is called "economic" in literature in contrast to another "moral" or "ethical-political" trend.

Mainstream liberalism in its modern and neoliberal form is the highest level of the development of property-based "economic liberalism". Individualism is the ideal of economic liberalism opposed to collectivism. It is also the way of counteraction to authoritarianism that oppresses personality. Another trend of liberalism is concentrated on moral and goes back to the Age of Enlightenment. The main representatives of the epoch such as Voltaire, A. Smith, I. Kant, etc., formulated the ideas of rational critics of capitalism in terms of moral norms generated by the epoch. For example, categorical imperative of Kant runs: "Act in such a way that you treat humanity, whether in your own person or in the person of any other, never merely as a means to an end, but always at the same time as an end." The determining feature of such liberalism is "rational basis of moral".

Following the moral tradition of the Enlightenment, Hegel regarded morality as normative benchmark of individual thinking. But moral benchmark and moral thinking acquire political significance only when they coincide or are close to fairly large number of people. In liberalism, implementation of moral demands may be assigned to the political *will* (as a result of aspiration of real number of political participants), that aims to embody these values. Invasion of the will into "the laws and conditions of manufacturing" from the standpoint of liberal values is unnatural. J.S. Mill put it this way: "Laws and conditions of wealth production have an origin inherent in the natural sciences. They have nothing dependent on the will and nothing that could be changed." But it is noticeable that the author considers this feature of capitalism to be fare just for *production*. As to the *distribution*, he regarded it to be open to "changes" and "will".

Liberal idea of "economic" character that was based on "the right of property" means that property has the right to dictate the laws of its keeping and increasing to the society even if they contradict the basic principles of liberty, moral and democracy. An outstanding theorist of neoliberalism F. von Hayek concerned Pinochet in one of his interviews, which reflects the "property right": "Dictator can govern in liberalistic way. It is also possible that the democracy govern absolutely illiberal. Personally I prefer liberal dictator to non-liberal democratic government."

To sum it up we can conclude that modern “liberal mainstream” comes from one of two trends of liberalism named “economic liberalism” where moral imperatives and civil society institutions serve just as the way of conserving the ideals of liberalism and thus the existing neoliberal model of capitalism. For the second trend of liberalism which is based on the moral norms worked out by historic practice, critical attitude to status quo of capitalism becomes “categorical imperative”. Moral and social responsibility of politicians and intellectuals should come out of the issue concerning the alternative model of capitalism. It is politicians and intellectuals that should represent inhabitants of different social groups dissatisfied with the existing state of affairs. It will be a part of civil society, by which one can understand not only the existence of certain social organizations, but certain practical measures that involve various institutions and subdivisions. In other words, these are the types of social practice, when the population is converted from townfolk into citizens. Unlike townfolk, a citizen is oriented to the public life, the “public benefit.” But he is at the same time oriented to the “social benefit” like townfolk. And it is one of the fundamental contradictions of the civil society. Resolving this conflict by finding a new model of capitalism is the society self-renewal, which is coordinated with democratic development.

Thus, in socio-economic practice two trends of liberalism gained varieties of modern liberalism and conservatism (neo-liberalism), distinctive features of which were demonstrated by Nobel laureate P. Krugman in relation to the economy of the USA and Western countries, and by V.M. Geytsa in relation to Ukraine in his article.

As it has been demonstrated, basic principles of liberalism offer in sacrifice democratic norms when the principles of neoliberalism contradict these norms and liberty. Let us discuss this issue in more detail.

## **DEMOCRACY AND LIBERALISM**

Social-economic literature discusses weaknesses of the democracy establishment, to be exact – the possible negative impact of “premature” democratization on the economic growth.

The results of studies lead to the conclusion that in countries with high class of institutions (low level of corruption, high level of law and order, healthy investment climate) democratization impacts beneficially on the institutional building and economic growth, and in countries with poor class of institutions it results in their further weakening and undermines the economic growth.

It has already been said that economic models with protected property rights are called “liberal”. If we compare the concepts of “liberalism” and “democracy”, it turns out that Europe was liberal at first, and then it became democratic. In the XIX century the rights on firms and property in European countries were mostly ensured, although we couldn’t call these countries democratic. At the turn of the XIX and XX centuries more than half of the adults from Europe had no right to vote because of

residency and property restrictions. The same way – from liberalism to democracy – followed East Asian countries that achieved tremendous economic success in the past decade.

In the countries of Latin America democratic institutions appeared before the establishment of liberalism. In these countries there appeared a mass phenomenon called “non-liberal democracy”. In the 1990<sup>th</sup> the majority of former Soviet republics including Ukraine were added to the list of “non-liberal democratic” countries.

The essence of “non-liberal democracy” phenomenon stands in that the countries are not secured by the law, personal rights and economic agent protection (such as property rights and contract execution) when introducing competitive elections of the top officials. Consequently, the countries where these rights are protected are called “liberal”. Such protection can only be ensured by strong institutions.

Researchers of the democracy impacts on the economic growth indicate that practically all the countries with successful economic growth either delayed democratization until they achieved sufficiently high level of prosperity or practiced “one-and-a-half party democracy” (a large governing party and several smaller oppositional ones, which do not have real chances of coming to power). This fact can hardly be considered a consequence. Thus, scientists believe that the quick introduction of democracy into a country with poor social relations order may be associated with a great number of negative economic and social effects.

Therefore, the studies demonstrate that democratization is most effective when implemented simultaneously with law-and-order strengthening. One of the most important issues that should be clarified by the scientists in order not to slow down the economic growth is the issue of pace and consistency of democratic reforms. But now we can with certainty say that social-economic changes that took place in Ukraine during reforms can be defined as “non-liberal democracy”. In the national economic system, mechanisms of effective competitiveness, market concentration and capital accumulation in the most productive enterprises “do not work”; there are no incentives to use productive potential effectively; there are no “transparent” rules of economic behaviour that everyone would follow, etc.

Talking about such an important feature of liberalism as “the institution of private property”, we may note that in Ukrainian economic system the ownership right is limited, derivative and depends on the political power. In fact, there are no legal guarantees and mechanisms of judicial property protection.

All these features of the national capital indicate that it lacks legal and institutional framework which is the main characteristics of the modern developed economies. But as you know, there are no gaps in nature, as well as in “social nature”. Legal-institutional vacuum is full of contradicting phenomena such as dominance of informal relationships in the economy; the dominant role of the administrative authority in economic relationships; lack of confidence, etc. It is clearly proved in the work of V.M. Geets.

Thus, the absence of legal-institutional framework and the dominance of administrative informal relationships with trust deficit are favourable conditions for the functioning of the oligopolistic economic structure and cause difficulties in the formation of single competitive markets in the national-wide scale. The national economy fell into numerous territorial and national segments with strong elements of administrative control. Such segmentation of domestic market is accompanied by dramatic descent in its efficiency and high level of transactional costs.

Analysis of the indicated limitations belonging to that type of capitalism approved in Ukrainian economy revealed that ignoring the legal-institutional framework as a condition for the formation of the effective economic model was a real failure in the course of reforms. As it has been mentioned, the existing model of Ukrainian economy is called “oligarchic” because of the concentration of disproportionately large share of financial and managerial resources in the hands of a few business groups that control the main part of export and processing of the raw materials. Due to the formation and support of these business groups the national economic system obtained its own social base.

However, as these groups are mainly oriented on export and are included into the global economy as its peripheral subordinate part, their economic situation depends entirely on the state of the world economy. It means that the Ukrainian economy mechanism of self-sustained growth is absent on its own basis. Such system for its internal order is not able to reduce the lag of our country from the developed countries as well as improve the citizens’ welfare and ensure the internal stability. In order to overcome the negative tendencies in the development of Ukraine it is necessary to modernize its culture, policy and economy.

In these relations there appear two questions: what are the main features of the new economic model, transition to which becomes actual for our country? What is the path to this new model?

From the standpoint of neoliberal doctrine, this formulation of the problem is not actual in general sense, for in accordance with its fundamental principles the market system will put everything in the right place. From this perspective, the attempts to intervene into the elemental processes of natural market selection will only impede the development of effective market structures and transfer of the resources to the so-called “effective owner”. But, as the twenty-year practice of market reforms in Ukraine demonstrated, present-day model of economy was formed when such neoliberal idea appeared. This economic model led our country to the limits of economic and social development. During the implementation of neoliberal idea in the Ukrainian society the human, intellectual, industrial and moral potential was lost. The country is under the dangerous line beyond which the breakdown of the basic social institutions starts.

## CONCLUSION

When determining the ways of modernization of the existing economic system, one should take into account the particular situation inherited from the past. These specific historical circumstances determine the limits of probability, but not a priori theoretical constructions.

But the solution of the urgent problems should not obscure the long-term vision of those tasks, fulfillment of which will help to build the principles of dynamic development of the economy, which would be based on the strong civil society and government. Further implementation of neoliberal ideas with stagnant economic system serves as an alternative.

Therefore it is necessary to outline the model you are going to develop. Its main features are the ability of self-development and qualitative growth; attraction to the development and modernization processes of all the territories and society sectors; updating and usage of all the society's resources, and above all – human ones. The methods of modernization of the existing economic system lie at first in the establishment of both social and governmental institutional systems which would protect the legitimate interests of all the participants of economic relations on the one hand, and ensure the efficient utilization of production capacity on the other hand. Secondly, the modernization method lies in adopting the deliberate strategy for the socio-economic development (including industrial policy) and the development of incentive system necessary for reaching the assigned goals. In order to overcome crisis, a new model of economy should be done, and in particular – a new model of government regulation based on new moral and political principles.

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# THE ECONOMIC CRISIS: INCENTIVE OF THE EUROPEAN INTEGRATION OR DESINTEGRATION?

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**Abstract:** *The challenges of the financial turmoil of the last four years were likely to shake the foundations of the global economic structures, some being more or less affected by them. Under these conditions, a fundamental question arises: Will this crisis bring structural reforms in the regional groups, thus changing the facade of the world or not? At least at the European Union's level, it seems that the bliss is over, thus revealing the fragility of the whole European system. Thereby, the purpose of this paper is to analyse the economic crisis in the EU in order to distinguish the Union's direction regarding the integration: is more or less integration necessary for its survival? In order to achieve the set objective, the study focuses on statistical data and literature reviews with the explanation and interpretation of this information from a personal perspective. What we have seen is that all the member states of the European Union have been affected by the crisis, thereby leading to high economic and social costs. These implications have great repercussions, currently the credibility of the European Union being questioned. In order for the European Union to surpass this stall, more integration at a European level is needed.*

**Key words:** economic crisis, integration, socio-economic discrepancies, political union

## INTRODUCTION

The European Union is considered to be one of the most ambitious projects of modern and contemporary history, through which the spread of a peace and stability climate was managed inside a turbulent post-war context. Jean Monnet, one of the founders, very suggestively synthesized the objective of the European project in a discourse held in Washington on April 30<sup>th</sup> 1952: "We are not forming coalitions of states, we are uniting men" (Monnet, 1952).

In time, the argumentative force of “uniting men” was diluted, but probably none of the critical moments the European Community faced has ever created as many vulnerabilities to the European project as the current economic-financial crisis has. This revealed the fragility of the entire European system, although the European Union was regarded as a stable entity, with a high immunity level for external shocks.

If the United States of America have partially reinvented themselves, and to a certain extent surpassed the crisis, and Asia has hardly even been reached by these financial turbulences, the situation is different in the European Union. Currently, the old European continent still faces a series of problems like cultural differences, socio-economic inequalities, regional disparities, macroeconomic, financial, social, technological and commercial convulsions. Moreover, the economic-financial instabilities have revealed the crisis of the European integration process. Are we living the beginning of the end for the European integration? Is the European project in danger?

In this context, it is more obvious than ever that the European Union has to find answers to the challenges it confronts, to decisively solve the vulnerabilities and, last but not least, to capitalize its numerous advantages. And for all of these to be accomplished cohesion and cooperation are required – Europe can only succeed if it acts collectively, as a Union.

Confronted with major events in the past, the EU has risen every time to its expectations. In the 90s, Europe launched the biggest single market in the world, sustained by a single currency. A few years back, the actions adopted by the means of the European plan of restructuring, permitted the avoidance of an economic collapse, while the social protection schemes contributed to the citizen protection against harsh life conditions. Therefore, experience shows that, every time it was confronted with a crisis, the European Union identified new methods for integration.

We believe that this time also, a deeper integration is the viable solution in order for the Union to surpass the current challenges, furthermore, to come out stronger from the economic and financial crisis. This will only be possible if the European Community will know how to use its multiple trumps out of which some of the most important are: the soft component, the inclusion model, tolerance and prosperity, protecting fundamental and minority rights, involvement in the growth of less developed countries and an open attitude towards Eastern Europe.

## **1. CHALLENGES OF THE EU IN TIMES OF CRISIS**

The economic crisis is not a new phenomenon, but its contemporary shape inside the European Union is different in terms of scale and manifestation from the previous attempts, which requires setting the basic similarities and the appropriate differences. Clearly, Europe goes through a transformation period. The crisis

cancelled years of economic and social progress, and highlighted the structural shortcomings of the European Union's economy.

Firstly, the European Community confronted economic vulnerabilities: the European Union's economy decline started in the final trimester of 2008, reflecting the collapse of the external demand. The situation got from bad to worse, so that in 2009 the UE's economy was standing in the deepest and most extended recession after the Second World War. Because the economies of the European Union's member states are interconnected, with a very strong trade between them, the effects of the crisis have spread extremely fast between all of these economies.

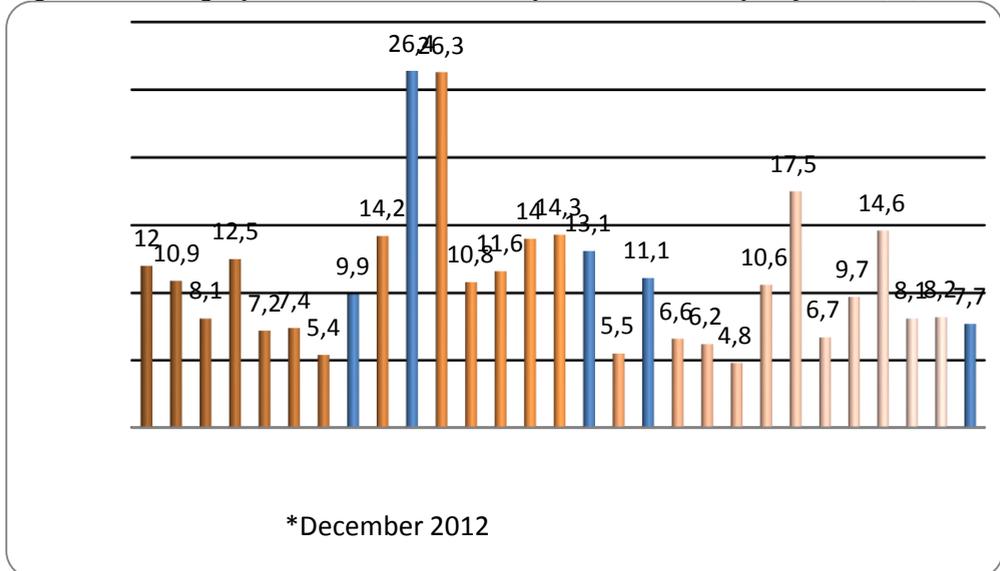
The GDP, the exports and the investments have noticeably contracted, the public debt has risen, the budgetary deficit accentuated and the private consumption reduced as the labour market situation deteriorated. According to the Eurostat statistics, the constant progress regarding the economic growth and jobs creation in the last ten years were cancelled – the European GDP fell with 4% in 2009, and the industrial production decreased to the levels of the 90s.

**Figure 1. The trend of the main macroeconomic indicators for all EU member states between the years 2007-2012 (average annual parameters)**

	2007	2008	2009	2010	2011	2012
GDP	3,2	0,3	-4,3	3,1	1,5	-0,3
Unemployment rate	7,2	7,1	9,0	9,6	9,5	9,1
Inflation rate	2,3	3,7	1,0	2,1	3,1	2,6
The public debt(% of GDP)	59,0	62,3	74,4	80,2	82,3	83,3

*Source:* Dates taken from Eurostat by the authors

Also, the economic crisis hit the European labour market, resulting in the decrease of the employment rates and the increase of the unemployment rates in almost all the member states of the European Union. The Eurostat statistics indicate that approximately 26 million people are currently unemployed. In February 2013, the unemployment rate for the average of EU 27 reached the threshold of 10,9%, and in the euro zone it reached 12%. Between the Unions countries, Austria holds the lowest unemployment rate (4,8%), at the other end situating Greece (26,4% in December 2012), Spain (26,3%) and Portugal (17,5%).

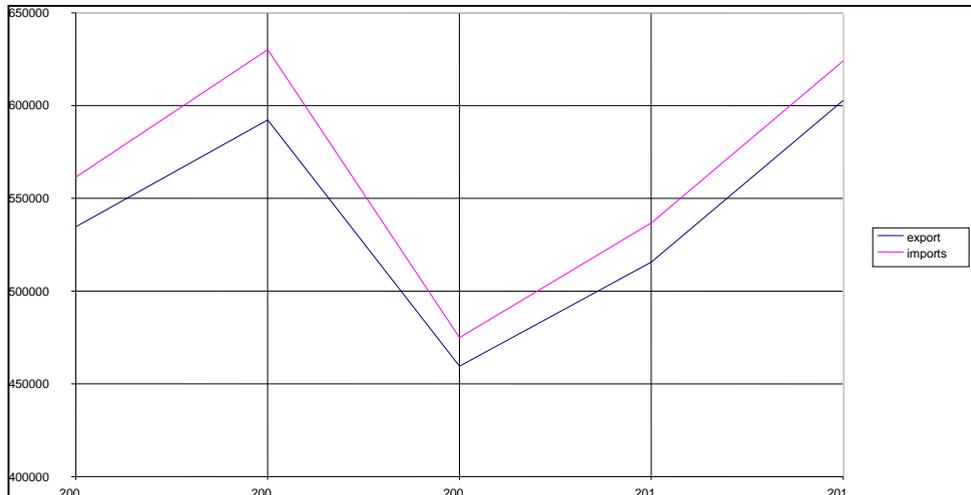
**Figure 2. Unemployment rates in February 2013, seasonally adjusted (%)**

*Source:* The authors adaptation of Eurostat data, 2013

The crisis caused a shock for millions of citizens and emphasized some fundamental drawbacks of the European Union's economy.

As it can be noticed in Figure 3, the European trade experienced significant cuts in the second half of 2008, along with the beginning of the economic-financial crisis in the European Union. In 2009 the imports dropped by 0,9% compared to the previous year, and the exports have registered a decrease of 1,5% compared to 2008. Starting with 2010, the European trade state improved overall. After the sharp decrease by 12% of the community export in nominal expression in 2009, a significant recovery of 18,25% followed in 2010, increase achieved mainly through a high level of cars export, transport equipment and other manufactured goods.

**Figure 3: The evolution of the EU exports and imports towards the rest of the world between the years 2007-2011 – in millions of dollars-**



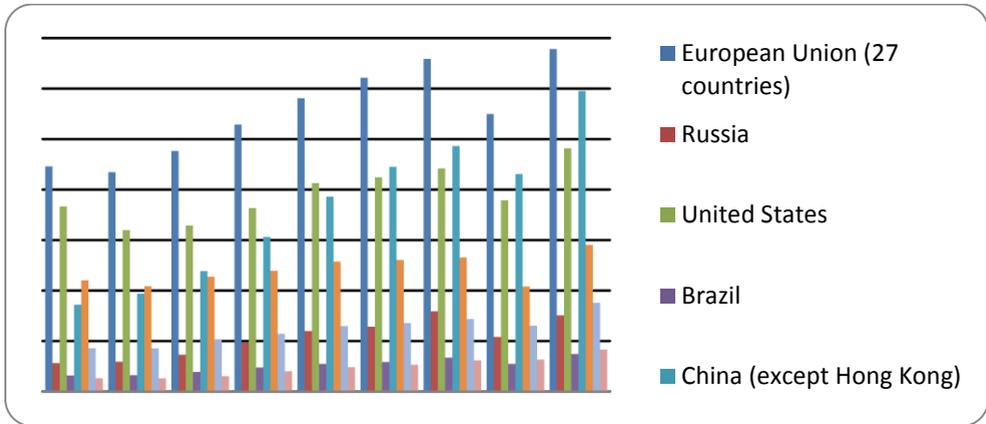
*Source:* The author's adaptation of WTO data

Figure 3 presents, in quite a suggestive way, how the European Community evolved during the crisis in regard to the trading sector. Still, the world's economies are getting more interconnected, thus, for a better understanding of the position held by the EU in this context, parallel to the other great global powers, I have found it really important to present a comparative analysis of the global trade situation.

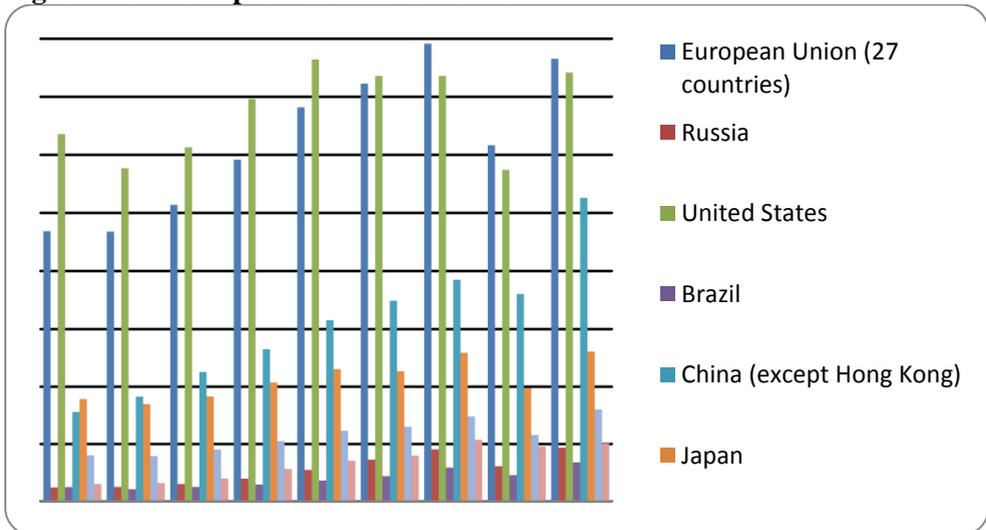
In this respect, in figures 4 and 5, it can be observed that both for exports as well as for imports, along the analysed period, the European Union comes first, as being of the most opened economies in the world. On the other hand, the competition from developed and emergent economies intensifies. Countries like China, US, Japan or India are coming strongly from behind, massively investing in research and technology.

Although it holds the first place regarding the commercial value, the European Union confronts with the reduction of the relative performance in terms of export and import (in 1999 it held approximately 19% of the world trade and in 2009 It dropped to about 17%).

Therefore, at the European Community level there is an imperative need to improve the competitiveness towards the main trading partners through a high productivity; only so the EU will be able to face the challenges launched by the economic-financial crisis and will keep its place of first commercial power.

**Figure 4. Total exports in millions of euro**

Source: The author's adaptation of Eurostat data, 2013

**Figure 5. Total imports in millions of euro**

Source: The author's adaptation of Eurostat data, 2013

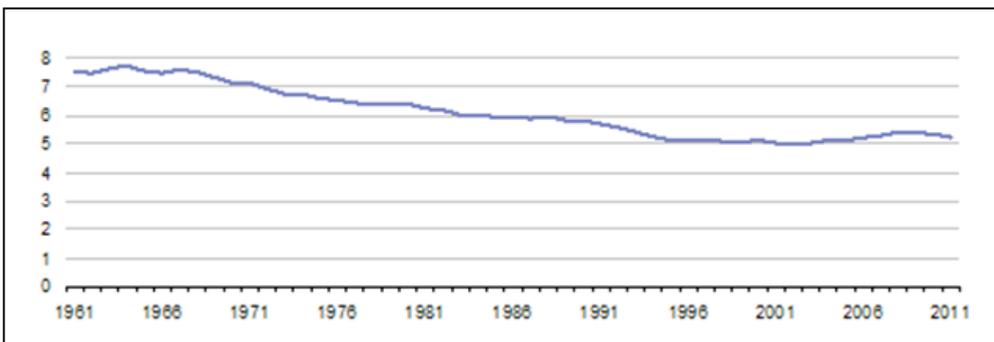
On the other hand, the economic problems with whom countries like Greece, and more recently Cyprus, confront, are meant to induce an even higher volatility for the single currency, the turbulences including mostly the limited states from the periphery of the euro zone. The public deficit reached astounding levels, aggravating the possibility of defrayment of the external debts, the sovereign debts crisis being

an extended phenomenon for other countries like Portugal, Ireland or Spain also, but in a more diluted effervescence.

Secondly, the European Union has had and still has to pay social costs. The financial crisis carried forward a multitude of social consequences, having a negative impact over the job placement, working conditions deterioration, increased homelessness (according to the European Bank for Reconstruction and Development's 2011 Transition Report). The categories most affected by this situation are the most vulnerable: children, women, as well as ethnic minorities and migrants. Also, the financial turbulences, present in the recent years, have amplified the dissatisfaction of the European citizens and have increased the social disparities between the elites of the euro zone and the peripheral states (B. Eichengreen, 2011).

Unfortunately Europe confronts a demographical crisis also, the ageing and population reduction amongst the European Union's states bringing a serious impact over the community states economies. Since the generation born after the Second World War ("baby boom") has started to retire, the active population of the EU is starting to reduce. The number of people over 60 years of age is currently rising twice as fast than before 2007 (approximately two million persons per year). The decrease of the active population, combined with the increase of the pensioners' rate, puts additional pressure over the European social protection systems.

**Figure 6. Number of live births, EU-27, 1961-2011 (millions)**



*Source:* Eurostat

Thirdly, from a political point of view, the European Community lacks integrated institutions and a strong voice, the EU members continuing to play an individual role in the system of international relations. The political indecision, the absence of an answer coordinated with the crisis, the constant distancing from the Europeans, the institutional confusion and the "democratic deficit" (Hix, 2007) have created dissensions. The economically capable states, like Germany, have avoided sustaining a European manoeuvre of saving the euro zone precisely because they feared they might become the main financial source of the European economic

breakdown. The solidarity which should be the main principle of the European Union, also suffers between the relations of the West and the East, as the countries from the euro zone are refractory over offering financial support to the states outside this area, not to endanger the stability of the single currency.

Moreover, the EU members have a strong military deficit compared to the USA but also with other powers like Russia, China, India or Turkey, but also compared to states that developed or bought the latest military equipment like Israel, Saudi Arabia, Iran, Brazil etc. The European military budgets have dropped in the last few years dominated by the crisis. Therefore, the lack of a military power, of a common political voice, made the EU incapable of reacting promptly to the crisis challenges.

Fourthly, the European Union confronts with strategic vulnerabilities also: France and Great Britain have signed unprecedented agreements of military cooperation and the multi-lateralisation of these agreements is problematic. The so called “Arabic-spring” has worsened even more. The decision of Berlin to join the BRIC states in the issue of Libya shocked the European chancellors, especially after Germany was offered an important role in the global affairs, with the place obtained in the Security Council of the UN.

Also, the promise of a “borderless Europe” has been undermined by the reaction against immigrants, which hampers the competition for jobs. The migration flux from Northern Africa has intensified the nationalist feeling and it seems to affect the essence of the European project itself: the free movement of people.

Another of Europe’s challenges in times of crisis is represented by its dependency of energy imports which have constantly increased in the last decade, with almost a third of the oil and gas coming from Russia. The strong dependency of fossil fuels, like oil, and the inefficient use of the prime matter, exposes the consumers and the European companies to harmful and costly shocks regarding prices, it threatens the economic security and favours climatic changes.

## **2. MORE INTEGRATION – POSSIBLE PANACEA SOLUTION FOR SURPASSING THE CRISIS IN THE EU**

Most certainly, in the context of the previously presented facts, the European Union passes through the most critical moment it ever had to face since its foundation. The magnitude of this phenomenon has destabilized the European Community, creating economic, social, political and strategic vulnerabilities, reason for which EU confronts a virulent euro-sceptical discourse. There are many who don’t see an alternative to save the European project or maybe it is easier not to see it, probably amongst those who “respect the issues more than the solutions...” as the great physicist Albert Einstein stated.

Truly, perhaps Europe talks through too many voices, maybe there are too big differences embodied in the gaps between North and South or East and West or

maybe the argumentative force of the "people's union" has been diluted, but Europe through the European Union still remains an important powerhouse. The remarkable diversity of cultures, histories, destinies, as well as the immense symbolical power (perhaps the most important), constitute the business card of the Union and a significant differentiator over the other great powers of the world.

Therefore, a project with the amplitude of the European Union, deeply rooted in time and with a vision which can constructively canalise energies and breed new synergies, cannot be so easily disbanded. Moreover, any crisis carries in itself the embryos of a new beginning, and European history has demonstrated that each time it was materialised by deepening the integration in the European Community.

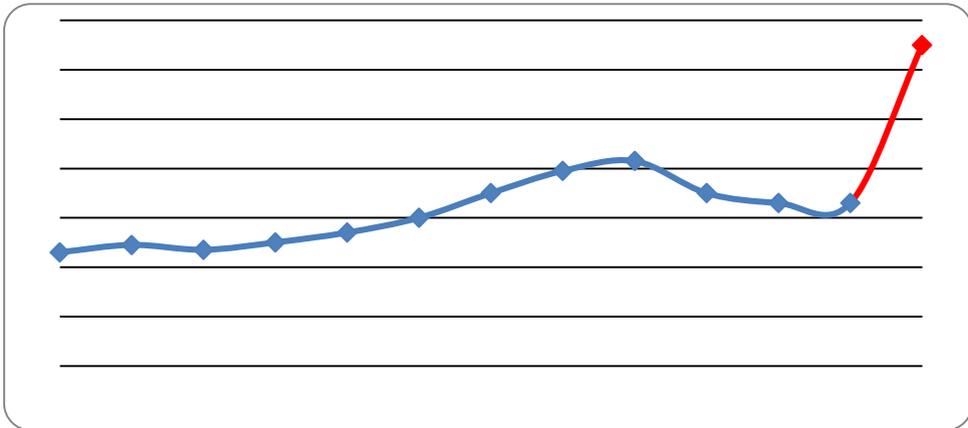
Once more, we consider that the current economic-financial crisis is a stimulant towards deepening the integration and a catalyst for a wide change.

So far, multiple measures were taken to restore the European economy, but to continue in a slow pace with the undertaking of reforms would only further prolong the recession, maybe even leading to the euro currency's collapse; issues like high unemployment levels, deficit and public debt would only negatively affect most of the countries.

Therefore, the European Community needs a new strategy to transform it into an intelligent economy, sustainable and favourable to inclusion, characterized by high levels of labour employment, productivity and social cohesion. However, for this to happen, it needs to act collectively, like a Union.

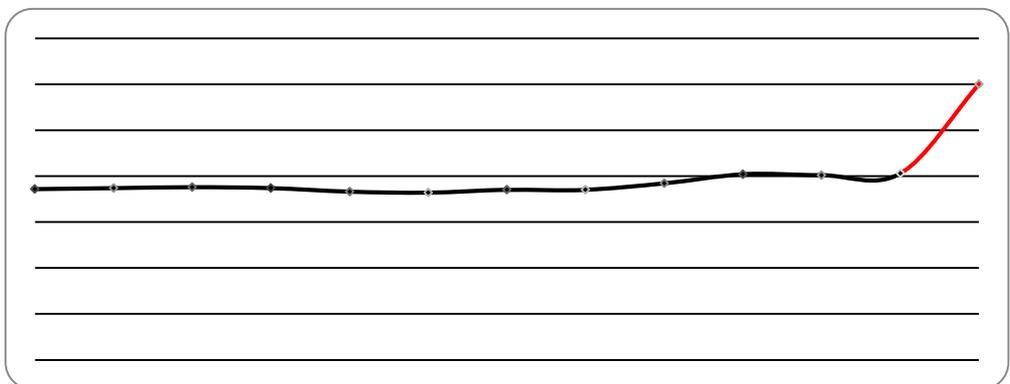
Firstly, the EU has to surpass one of the biggest challenges which is unemployment. Despite some progresses, the labour employment rates in Europe, with an average of 69% for people aged 20 to 64 continues to be lower than other parts of the world. The Eurostat statistics show that only 63% of women are working, compared to 74% of men; only 46% of the elderly employees (55-64 years of age) have a job, compared to over 62% in the US and Japan. Moreover, the European citizens are working, in average, 10% less hours than those in the US or Japan.

According to the Europe 2020 strategy the labour employment rates for the population aged 20 to 64 should increase from the current level of 69% to at least 75%, situation presented in Figure 7. This objective should be possible to reach with the condition of a coordinated action, through a higher involvement of women, elderly workers and through a better migrant integration on the labour market.

**Figure 7. EU27 total employment rates (%)**

*Source:* The author's adaptation of Eurostat data, 2013

Secondly, in order to regain its competitiveness, Europe has to correct its high sovereign debts, to generate growth through structural reforms and to invest in innovation. In Europe, the expenses intended for research-development is situating at around 2%, as shows the graphic in Figure 8. To surpass the current situation and to be able to face the competition who registers upper levels in this domain (2,6% in the USA and 3,4% in Japan), the European Union will have to focus on the impact brought by innovation in lifting the world's competitiveness, so that by 2020 the share of expenditures with research-development to reach the level of 3%.

**Figure 8. Gross domestic expenditure on R&D**

*Source:* The author's adaptation of Eurostat data, 2013

Thirdly, a single stronger market, more thorough and more comprehensive, represents a vital element in insuring the increase and creation of jobs. More so, the EU will have to be more democratic, in the sense of giving the citizens more power to speak over matters of new concessions of sovereignty and of expansion of the Union's attributions, especially in the fields of economic and fiscal politics.

Besides the issue of democratization, the EU confronts the demographical one, the fast aging of the population. With a higher number of pensioners, supported by a more and more reduced active population, there is a need to implement smart politics immigration, to attract young professionals from other countries.

The EU is an important actor on the global scale, but this will only influence the world politics only if it acts together, in a concentrated way, as a whole and not each state individually. A stronger external representation will have to be strongly coordinated internally.

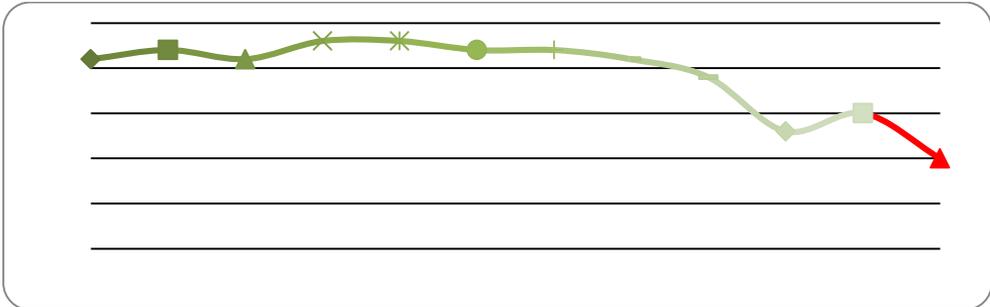
It is necessary that part of the growth Europe will have to generate in the future, to come from emergent economies, because the middle classes from these countries develop and import goods and services in which the EU has a comparative advantage. As the world's biggest commercial bloc, the EU will prosper if it will adopt an open attitude towards the rest of the world.

In this respect is desirable that the Union develop real partnerships with the developing countries nearby that targets the eradication of poverty, illiteracy, promotes democracy, growth, stability and prosperity.

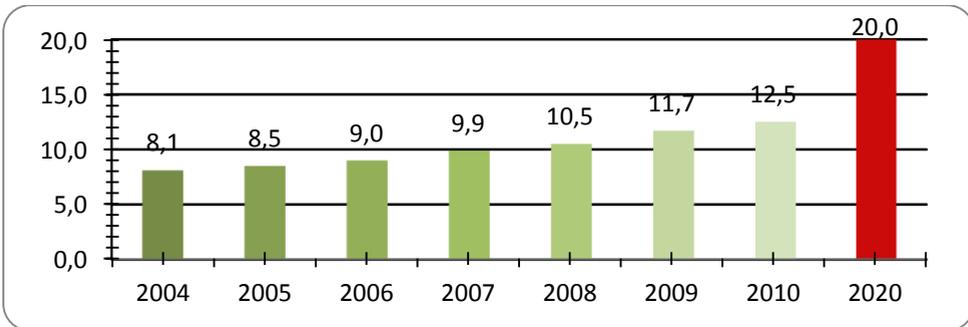
It is necessary for the EU to support the implementation of sustainable reforms in Eastern European countries and to create conditions for the acceleration of political association and deepen the economic integration between the Union and the eastern partner countries like Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine.

Also, the EU has to consolidate the agreements with its main partners of the energetic field, to invest in alternative energy sources to compensate the prime matter deficit, to continue supporting the reforms regarding the sustainable energy markets and the regional market integration in the neighbourhood and to continue the resource diversification strategy, especially concerning the "southern corridor" which goes to the Caspian Sea.

The European Union has already shown that the resources can be used more efficiently. Recycling is starting to become a common practice for the companies and households of the EU. Figure 9 shows that, compared to 1990, the European Union has reduced the emissions of greenhouse gases by more than 10%, but considering the crisis is imposing the acceleration of progress and immediate take of action, the Europe 2020 strategy aims to reduce the emissions by 20%, as well as to increase the share of renewable resources in gross final energy consumption at up to 20%, situation shown in Figure 10.

**Figure 9. Greenhouse gas emissions, base year 1990**

Source: The author's adaptation of Eurostat data, 2013

**Figure 10. Share of renewable energy in gross final energy consumption (%)**

Source: The author's adaptation of Eurostat data, 2013

Therefore, the option of collectively facing the immediate challenge represented by the restructuring and economic recovery could stimulate the productivity and competitiveness, would put the EU on an upward trajectory of prosperity and last but not least, it could save the euro currency. The euro was created with the hope it would have its own dynamics, becoming an engine of political integration of the member states. But the single currency has no future without fiscal and budgetary community politics. So, for the Monetary Union to continue to exist and to work efficiently, a deeper level of integration in the European Union is required. The European Community needs a big step forward, which will mean redefining the national sovereignty, redefining the democracy model, as we know them. Thus, finally, political integration in the European Union is needed.

## CONCLUSIONS

The current paper is based on the systemic crisis through which the European Union goes today and which revealed, alongside economic, social, political and strategic challenges, the crisis of the European integration process itself. After over 50 years from the foundation of the European Union, the latest financial turbulences seem to anachronistically reinstall the constraining power of the national borders, questioning the single market and threatening the accomplishments and unfulfilled ambitions of the Economic and Monetary Union.

So far, at the European Community level, different measures were adopted in order to overcome the crisis, but the lack of a common voice and of strong integrated institutions, made nearly impossible finding the way towards economic restructuring and recovery.

To overcome the current challenges and furthermore, to come out stronger from the economic and financial crisis, it is necessary that Europe acts collectively as a Union. Globalisation requires more union, more integration and more democracy.

In the context of a multipolar world, increasingly globalized, the European Union has to explore its numerous trumps, to keep its values and to rely more and more on its capacity of soft power.

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# DIMENSION OF FIRM PERFORMANCE ON THE SINGLE EUROPEAN MARKET

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**Abstract:** *Globalization, increased complexity of customer needs, increased impact of information technology and the economy based on intellectual capital are phenomena that present new challenges for both large companies and SME's. To survive in the globalized economy, companies must improve their performance, which requires a new approach to organizational performance in a new business environment and quantify the combined effects of human factors, strategy, structure, technology and the environmental performance of companies, especially for SME's. Also of particular importance is identifying management practices likely to help improve business performance. Increased complexity of the new business environment (high level of uncertainty and risk) generates new approaches in terms of business performance in general and, in particular, small and medium enterprises concerned with achieving levels of efficiency, productivity, efficiency and competitiveness to classify them in the category of "world class". Important changes in the business environment should be equally assumed by public and private bodies which represent the "development infrastructure" for firms (universities, research centers, government agencies, consultants) and support the activities of firms through policies, programs, methods, tools and knowledge transfer.*

**Keywords:** European Single Market, firm performance, competitiveness, strategy, risk.

## 1. EUROPEAN SINGLE MARKET ISSUES AT MICROECONOMIC LEVEL

Some of the features of the European single market which affect the evolution of financial and economic environment are:

a) liberalization of trade, leading to increased competitiveness in the market which could determine the following situations:

- ✓ the case when a large number of companies competing for the same market acquisition - competition in which competitors have totally different situations, each of them, which translates into competitive advantage for one to another;

- ✓ second situation, characterized by a relative stabilization of the market companies access, when, at microeconomic level, strengthening the market position of each company occurs;
- ✓ the third case, when the competitive process is resumed, meaning the raising of competitiveness in order to extend, at microeconomic level, the firm market. In this respect, competition is more difficult to coordinate, from the narrowness of the common tools of business. The competition also includes other tools, namely: money invested in advertising campaigns, increased product quality level in terms of insignificant growth of prices, price reductions up to company earnings disadvantage, in limited term, promotional prices practiced in some areas, the financial condition of the firm following to be redressed by accumulated profit on stable markets.

b) another feature of the European single market has its source in the very formulation of the main objective of European integration, the harmonization of Member States' development levels and raise of living standards in community as a whole. Achieving this goal is supported through the program for implementation of macroeconomic policies, aiming to unify them as a necessity to ensure macroeconomic balance;

c) influencing consumer attitudes to consume as much as possible. The real possibilities of consumers are multiplied by the participation, in cycle system, of targeting funds towards productive activities, of the banking system through products and specific services for lending.

From this perspective, the consumer mentality is more directed to when and how much to consume than to what to consume. The main effects of this type of approach in terms of manufacturing companies are represented by increasing investment and consumption savings, which, according to theory  $C = I + S$  (where  $C$  = consumption,  $I$  = investment,  $S$  = savings) will lead to increased consumption. In order to eliminate or reduce the risk of inflation by request, one of the measures adopted by the monetary policy is to increase the money supply.

## **2. FIRM PERFORMANCE IN THE SINGLE MARKET**

Environment in which the firms activates can be considered as the totality of factors that company should interact with, factors that are constantly changing. In these circumstances strategic management in any firm should consider analyzing, planning the evolution of these factors. This is necessary because these factors will influence the company in the market position, market share, financial results. Depending on the economic situation and the influence of environmental factors and especially of their evolution, enterprises set their goals, plans, operations and financial results.

Globalization, increased complexity of customer needs, increased impact of information technology and the economy based on intellectual capital are phenomena that present new challenges for both large companies and SMEs. To survive in the globalized economy, companies must improve their performance, which requires a new approach to organizational performance in a new business environment and quantify the combined effects of human factors, strategy, structure, technology and the environmental performance of companies, especially for SMEs. Also of particular importance is identifying management practices likely to help improve business performance.

Increased complexity of the new business environment (high level of uncertainty and risk) generates new approaches in terms of business performance in general and, in particular, small and medium enterprises concerned with achieving levels of efficiency, productivity, efficiency and competitiveness to classify them in the category of "world class". Important changes in the business environment should be equally assumed by public and private bodies which represent the "development infrastructure" for firms (universities, research centers, government agencies, consultants) and support the activities of firms through policies, programs, methods, tools and knowledge transfer.

Conduct of change and innovation implies a systemic vision of the enterprise and the determinants of its performances based on the value chain (operating system), information system and management system that includes strategies and management for practices, operation and information based on the principles of adaptation to the environment and consistency.

Enterprise performance targets are at different levels of analysis, including individual, group and organization work. The performance can be seen also from the functional perspective (sales and marketing, accounting and finance, production, human resource management) and process perspective (supply chain management, customer relationship management). Performance can be measured in quantitative/objective signification (financial results, indicators of productivity) or qualitative/subjective (strategic flexibility) one.

The definition of performance is based on principle quantification systems of organisational performance used in the business world class (balanced scorecard), on the concept of meta-organizational performance (enterprise-network) and as well as on approaches based on standardisation (benchmarking) and exemplarity (best practices). One of the main objectives of performance analysis is to develop and validate an integrated model of its determinant variables including human, strategic, managerial, structural, technological and environmental factors specified in literature and confirmed empirically.

Thorough knowledge of performance and its determinants could thus be transferred to enterprises and assimilated into their activity as management practices (developing and implementing business strategy, its human and intellectual capital), informational practices (based on new information technologies that allow the firm

a virtual approach for its processes (e-organization) and business (e-commerce), improved operational relationships.

Maintenance of a raised solvency and profitability represents, for both managers and outside observers (banks, suppliers, investors) the key indicators of the financial health of the enterprise. Improving profitability and solvency are therefore an important imperative for the survival of any society.

### **2.1. Improving the profitability**

Profitability can be defined as the firm's ability to pay in a proper and permanent manner on the basis of operating activities, invested capital, ensuring its financial stability. As basis for the existence of an enterprise, operating activities generate financial flows necessary to continuity of the economic process. Revenues and operating expenses are variables of increased profitability.

Growth of turnover represents an initial solution to improve profitability. Especially in companies with high fixed costs, it must be achieved a critical level of turnover for going beyond breakeven. The challenge is to achieve higher turnover and gross margin sales while maintaining a constant quality level of products and services. The success of this strategy is, however, dependent on the level of competition in the market, trade policy promoted by the company, its policy of acquisitions (ie relationships with suppliers).

Another factor in the outcome of the operation is the personnel and indirect operating expenses. It is necessary to analyze the effectiveness of the production process and the distinction of the fixed variable costs. Control of variable costs is an important lever for profitability. In the short term it is difficult to act on fixed costs (such as depreciation of fixed assets), their approach is suitable for a medium and long term strategies, under a carefully developed investment policy.

Financial revenues are considered surplus as a result, the objective of optimal use of cash at firm's disposal. The financial costs are included in fixed costs, regardless of the turnover volume or level of activity of the company. Minimising them (which involves reducing foreign financing means) is one of the ways to improve profitability.

Precisely, profitability of equity can be enhanced by a high leverage effect. One paradox appears here, aimed at improving operating results through minimal use of foreign capital (decrease financial expenses) as opposed to the impact of increased leverage on profitability own funds.

### **2.2. Improving the solvency**

Solvency may be defined in a double perspective:

- The firm's ability to meet its financial obligations (interest and amortization of debt);

- The enterprise possesses a "financial cushion" sufficiently to cover risks, expenses and unexpected losses without compromising business continuity.

The first approach is based on the concept of cash flow and financial risk of the company: the company calls the borrowed funds that are assigned fixed costs of financing - repayment obligations are high financial risk is increased.

The second approach targets the solvency of the firm beginning with its financial independence: the lower indebtedment degree is, the own funds held the largest share in total used capital, the degree of financial independence being raised. The paradox appears: leverage opposes to limitations imposed by financial independence requirements. As profitability aspect, high leverage contributes to increased profitability of own funds. In light of financial independence, their fund raising is the best guarantee for business continuity. Legal sense of discontinuity (eg bankruptcy) is not directly related to the concept of solvency. Incidence of limits determined by the exigencies of the financial independence of leverage is another paradox.

Univocal measures with positive impact on both profitability and solvency generate conflicting opinions relative to the optimal capital structure. Type of company and sector to which it belongs are the main factors that determine the balance of financial structure, the ideal composition of the own and borrowed capitals. A company with operations in the short term will attract short-term funding means even if, because of the risk, it is recommended significant equity. In heavy industry, businesses are investing in property, which drives the need for permanent capital as equity and long-term loans.

### **3. FIRM COMPETITIVENESS IN THE EUROPEAN UNION**

In traditional economic system competitiveness at microeconomic level has several meanings: cost reduction, increased productivity of production factors. The new European economic competitiveness adds new values that should be reflected at the micro level, based not on resources based, but on knowledge and innovation.

The new form of competitiveness is not a quantitative but a qualitative one, with fewer goods and services with high added value, but with significant implications for the funding process at the micro level.

Competitiveness is the ability to win in the competition, regardless of where it is conducted. In order to be competitive, Romanian companies should establish certain goals such as flexibility, position (value) market, liquidity and profitability. These objectives can be achieved if there is initiative, knowledge and rigor of the business leaders.

The concept of competitiveness at the firm level should be analysed on the basis of aggregated financial indicators in order to capture all of these mutations of this concept evolved and which would encompass all the variables that define it. In

this regard, we believe that such an indicator, that capture micro-level competitiveness can be firm value.

#### **4. OPPORTUNITIES AND RISKS AT MICROECONOMIC LEVEL ASSOCIATED WITH PERSPECTIVES ON THE EUROPEAN SINGLE MARKET**

Starting with any business objective, namely to have a long life in terms of optimal profitability, companies would adopt strategies to emphasize the access to opportunities in terms of a portfolio as lower as possible, of risks. In this regard, the microeconomic management may meet the following opportunities and risks:

- presence on market of competing enterprises or associated activities. In this case, the firm will be in a position of unique beneficiary of profits from the markets for portfolio management, but will permanently face with the highest degree of competition, since, on the one hand, competing firms tend continually to expand their markets and, on the other hand, in the same sense of continued growth of turnover, the company aims to expand its presence in markets. In such circumstances, to resist a high competitive level means to increase both expenses (advertising, packaging, associated services and service dissolution) and investment (in technology related to production and infrastructure related to associated services);
- if the decision of the company management or shareholder expectations are appropriate to substantial increase in turnover, but there are concerns about the company's strength in market competition and there are not sufficient financial resources to withstand, one of the opportunities is merging with a similar company - then increase turnover occurs in the medium term, considered as the final performance of investment needs and structural change – moment when turnover growth would be a result of market expansion in terms of a much better competitive behaviour;
- also, given the increasing competition in the market, in case of bankruptcy, there is the opportunity to transform the enterprise into one subsidiary of a large company, in which efforts to withstand market competition greatly diminish, leaving only reasonable efforts for investment needs;
- if the degree of competition and market presence requirements grow as much that threaten the financial condition the firm and in conditions to detect a certain market segment that can be maintained with less effort, for a period long, one of opportunities is the restricting business activities and possibly increasing specialization degree, appropriate to requirements associated with that segment.

## 5. DEVELOPMENT STRATEGIES AT MICRO LEVEL

Theoretically, the portfolio for opportunities, benefits and potential risks at the disposal of a firm in terms of emerging markets such as the European single market is the theoretical and methodological basis and the determinant for development strategies at micro level.

From a theoretical perspective, development strategy should take into account the following aspects:

- ✓ the present situation and the dynamic of macroeconomic environment in which the firm operates;
- ✓ risks that warn the firm's evolution;
- ✓ opportunities likely to be implemented for evolutionary models of the company;
- ✓ assessment of risks and efforts required to implement every opportunity;
- ✓ decision making- selecting the optimal within the set of compounds of type opportunities- efforts- risks;
- ✓ the implementation of the decision, in which the intermediate assessments are required for the purposes of any corrections in order to reduce risks and maximize the benefits. In this process it is essential to consider and analyze predictions in order to reduce risk and increase profitability for associated activities.

Regarding the strategy about the analysis of dynamics of macroeconomic environment in which the firm operates, in the single European market, macroeconomic policies support economic development (e.g. single monetary policy takes into account an increase in the money supply approx. 4% per year, which corresponds to an increase in demand or consumption, and thus an increase in production of goods and services), so it might be envisaged an increase in demand and consumption, based primarily on the following: extension of single market, improving living standards, macroeconomic and microeconomic policies to stimulate consumption. So at this point the firm strategy would take into account the potential market growth and a corresponding increase in the degree of market competition, resulting in the establishment the potential market.

The firm's development strategy should include the following:

- ✓ in terms of risks that warn the company's evolution, the main potential one is related to the loss of market segments;
- ✓ to reduce, possibly eliminate this type of risk should consider the following strategies:
- ✓ increased advertising costs, increased investment in technology and infrastructure of related services, reducing, where possible, other categories of expenditure; merger with a competing firm, about the same level, technically and financially; absorbing a company which acts in the same field or in a related area; affiliation with a competing company,

stronger; focusing on market segments whose possession in portfolio is safer;

- ✓ regarding the risk assessment and efforts required to implement every opportunity, this concerns mainly the selection of optimum opportunity to implement a model that is optimal for the firm's development.
- ✓ For a company that has chosen to be independent, issue of assessment efforts and the risks associated with choosing a particular evolutionary model is reduced to the choice of one of the following situations:
  - to be independent from other competing enterprises or related activities;
  - merger with a competing firm, about the same level, technically and financially;
    - absorption of a firm that operates in the same field or in a related area;
  - affiliation with a competing stronger company;
  - focusing efforts on market segments to be kept in portfolio is safer.

#### ✓ **CONCLUSIONS**

- ✓ To survive in the globalized economy, firms should improve their performance, which requires a new approach to the concept of organizational performance in a new business environment and quantify the combined effects of human factors, strategy, structure, technology and environment on the performance of firms, especially for SMEs.
- ✓ Increased complexity of the new business environment generates new approaches in terms of business performance in general and, in particular, small and medium enterprises concerned with achieving levels of efficiency, productivity, efficiency and competitiveness to classify them in the category of "world class". Important changes in the business environment should be equally assumed by public and private bodies which represent the "development infrastructure" for firms (universities, research centers, government agencies, consultants) and support the activities of firms through policies, programs, methods, tools and knowledge transfer.
- ✓ Elaborating microeconomic strategies towards development affects macroeconomic environment, but in the same time these are used as input and predictions for development at macroeconomic level. In other words, economic progress is provided by the interdependence of the two decisional levels, the main goal being the maximization of positive effects and reduce side effects.
- ✓ The determinant within this interdependence is the macroeconomic decision by the development of strategies in the short, medium and long term global towards achieving macroeconomic objectives. In these activities, the behaviour in the real economy is an important factor in

decisions and at the same time a necessary tool to the application of macroeconomic policy, consolidation of its results and quantify the effects as obtained.

By the action of microeconomic management, directed always towards the optimal position in the evolutionary trend of the economy, the influence of consumer behaviour and its utility as an instrument for achieving the objectives represent a main objective for firm strategies. Another tool, used for corporate strategies but more difficult to influence is the development of implementation macroeconomic strategies. In this interdependence relation may occur, planned or not, elements of mutual mismatch between expectations and trends, which give rise to adverse effects that can be mitigated by maintaining, within strategies, elements with high mobility and efficiency degree.

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# ROMANIA IN THE EU: AN INSTITUTIONALIST APPROACH TO POOR ECONOMIC DYNAMICS

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**Abstract:** *The beginning of the 1990's illustrated a reference moment for the former Soviet countries, inclusively for Romania, in all the hypostases admitted by the challenge of transition to market economy. Most of nations explored the complex reconversion process, which was intended to be a gradual opening to free market institutions. The long, agonizing metamorphoses applied to all social spheres was based on two fundamental objectives: restoring the democratic structures of societies and reinforcing the pillars of the market economy. Undoubtedly, the construction of institutional framework was the major challenge by far. Under such circumstances, social and institutional facelift remain responsible for the economic dynamics, especially for those states which joined the European Community. From this perspective, Romania might be considered a notable example of institutional failure, despite the EU membership. The inland cultural profile and the persistence of unhealthy principles or behaviors perpetuated over time from past generations are to be blamed for poor economic performance. So, the purpose of this paper is to offer an institutional analysis of Romania's results in terms of economic dynamics after more than six years of EU membership, in order to assess its rank within the European Union area.*

**Keywords:** European Union, economic dynamics, formal institutions, informal institutions, East European countries

## INTRODUCTION

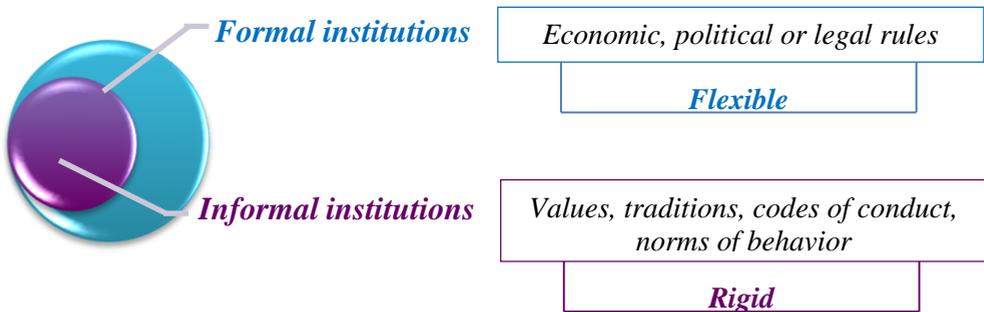
The subject of economic dynamics and factors able to stimulate the expansion and development of the nations illustrated a nodal aspect of the economic analyses in the past few years. The existent development gaps between countries which experienced similar social conditions in the past could not be explained only in terms of economic determinants. Institutional Economics, but mainly New Institutional Economics, brought an outstanding contribution in this respect. According to the institutionalist perspective, formal and informal rules of the game are responsible for poor or conversely, notable economic results.

Romania, as an ex-soviet country followed a different and inauspicious transition path to democracy. The unofficial institutional substance inherited from

the past veiled the transformation process and inhibited progress even in the new context of the European Union membership. The “invisible hand” of values, traditions, behaviors or attitudes perpetuated from the past generations illustrated a major factor of involution. Under such unfavorable conditions, the formal institutional initiatives borrowed from the European area were unable to induce transparency, prosperity and development. In other terms Romania’s insertion into the European Community remains formal, given the informal institutional “disease”. While countries like Poland, the Czech Republic, Hungary, Slovenia, Slovakia, even the Baltic states experienced positive economic performance under the European “umbrella” and had the ability to convert any financial or formal institutional help into a driving force of progress, Romania remained one of the poorest European nations. This confirms the idea according to which internal rules are made in order to satisfy the needs of those who have the power and not the society needs. As institutionalist analyses have pointed out, Romania might be considered a representative example of power oriented nations. The situation must change, such a position being unworthy of the status of a democratic EU member country.

### **1. INSTITUTIONAL QUALITY – DETERMINANT OF ECONOMIC DEVELOPMENT**

Beyond the well-known factors able to induce economic development, such as: natural resources, human capital, the abundance of production factors and their efficient usage, innovation, social capital or democracy, institutions illustrates the nodal component of positive economic evolution. As Douglass North pointed out, economic growth must be always attended by healthy institutions (North, 1981, p.52). The maximization of such beneficial effects might be achieved in the light of institutional practice. In other words, the New Institutional Economics certifies the defining influence of the institutional climate on the economic dynamics area, highlighting that such rules have the power to determine economic evolution of the nations. There is a large body of literature in the field of Institutional Economics which provide multiple definitions for the term *institution*. The common denominator of such definitions might be resumed to the idea of *behavioral regularity* (Hodgson, 2006, p. 2; North, 2003, p. 11; Sugden, 1986, p. 20). Such *rules of the game, or constraints created in order to shape human interaction* (North, 2003, p. 11) are based on two fundamental components, as illustrated in figure 1.

**Figure 1. The typology of institutions**

As figure 1 shows, on the one hand, there are *formal institutions*, asserted by an authority which highlights the subordination to the rules of individuals' behavior. As Hayek emphasized, these “manufactured” rules illustrate a result of political and government decisions (Hayek, 1978, p. 36). In other terms, they derive from the process of social engineering. Taking into consideration that their quality is highly influenced by values and beliefs of those who created them, their contribution to economic development process remains significant. Under such context, the memorable idea of Douglass North according to which institutions are not necessarily created in order to be socially efficient, but to satisfy the needs of those who have the power to negotiate, their obstruction remain alive (North, 2003, p. 76). On the other hand, there are *informal institutions*. Without being governed by human intentionality, such unofficial norms might be successfully framed within the analytic area of spontaneous order. These informal rules are very hard to change. According to the same Douglass North, precisely these informal institutions are generating the so called *path dependency* phenomenon. Economic reality shows that those nations which have been guided in the past by efficient institutional systems enjoy the advantage of positive economic results. The effective institutional basis is responsible for the existent transparency, order and social balance. Western European nations illustrate an appropriate example, where the system of social institutions and private property rights encouraged the directness of resources to the most useful productive activities as possible, mediating the path to prosperity and progress (Marinescu, 2007, p. 97). Such elements became the driving force of trade relations and of a relatively independent price system (North, 2005, p. 137). Conversely, those nations which faced poor institutional efficiency or complete inefficiency in the past encounter major difficulties in terms of alignment to all requirements imposed by economic growth and development. In this latter case, we might nominate some Central, Eastern and South-Eastern European countries, such as: Ukraine, Moldova, Belarus and Russia, even Romania or Bulgaria. In these states the poisoned values of the ex-soviet regime are to be blamed for poor economic results. As we have already highlighted, the informal component is very rigid and

allows the prolongation of past values, customs, norms of conduct and rules of behavior from a generation to another. The quality of the informal basis was vitiated by cultural heritage, while the formal component aura was modeled by the reluctant path of transition process guided by old bureaucratic and corrupt principles. Under this context, institutionalist analyses converge to the idea that the integration of institutions within the economic development theory was so necessary since the values of institutional systems precisely play a fundamental role in guiding the transition path to success or failure (Marinescu, Staicu, 2007, p. 402).

## 2. PATH DEPENDENCY PHENOMENON IN ROMANIA AND OTHER EUROPEAN COUNTRIES

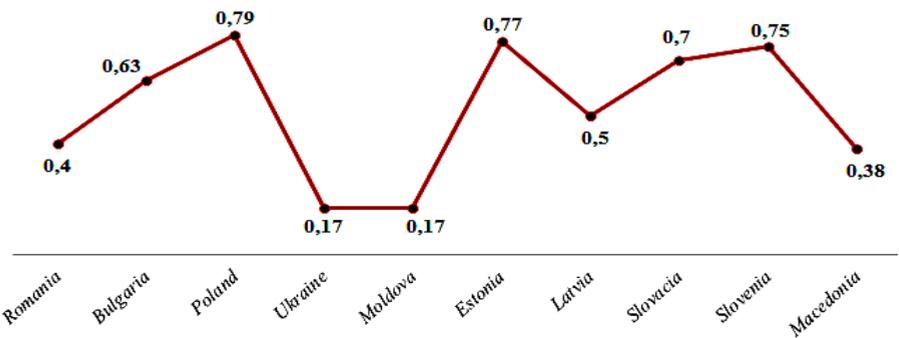
The analyses conducted by institutional economists highlighted that past experiences are able to determine the future evolution of a country. Past historical events, the native cultural profile, all have a great impact on the level of development and magnitude of social changes. As North emphasized, the informal institutions serve as the *dominant gene* of the entire metamorphosis. Cultural heritage is the source of informal institutional component. Culture mediates the transmission of knowledge, values and other elements which influence human behavior, from a generation to another, through teaching and imitation (Boyd, Richerson, 1985, p. 2). Such cultural implications are acting in a double hypostasis over the concerned nations. Romania and the other Central, Eastern or South-Eastern European countries are dominated by cultural values unpropitious for prosperity and development. In other terms, such unofficial rules exert an institutional pressure often, difficult to adjust. In these nations there is a significant *unequal distribution of authority* concentrated in the hands of those who have the power and *obedient behavior of the masses*, respectively. In Romania and other ex-soviet nations bureaucracy, inefficiency and corruption are obstacles interfered in the way of growth and economic progress.

Despite the European Union membership there are still outstanding development gaps between Romania and other ex-soviet countries which entered the EU earlier, like the Czech Republic, Poland, Slovenia, Slovakia, Hungary or the Baltic countries. The reason is the preeminence of such unfriendly informal conditions which place Romania in the category of countries with *strong affinity for power*, while the latter group of states illustrates a clear example of *wealth oriented nations* (Kunder, 1997, p. 32). These countries were not that strongly brainwashed by the Communist values and norms. Given the fact that there the unofficial institutional basis was less injured by past experiences, the enforcement of the property rights, rule of law, clear norms and contractual aspects was able to sustain and encourage transition path. Conversely, countries like Romania, Bulgaria, even nations from outside the European Community, such as: Ukraine, Moldova, Macedonia etc., might be characterized as having a strong *affinity for power*. Their

dependency on the past remained alive after more than two decades since the collapse of the Soviet Union. After so many years spent under coercion and fear the “creative destruction” of poisoned institutional arrangements did not effectively happen.

From the perspective of *the rule of law quality*, recent governance indicators provided by the World Bank revealed meaningful disparities between the new adhered EU nations from the last two waves and the Eastern area. As we might see in Figure 2 below, the highest quality of the rule of law indicator is available for countries like Poland, the Baltic nations, Slovakia or Slovenia so, states with a strong affinity for wealth. On the contrary, nations still governed by the old values of the soviet regime such as Moldova, Macedonia, Ukraine, Bulgaria or Romania have a lower level of the rule of law efficiency. From this viewpoint, Romania is not that far from nations with poor rule of law performance, aspect which should be worrying given the European Union membership for more than six years. In other words, in this perspective Romania has not achieved remarkable progress.

**Figure 2. The rule of law quality**

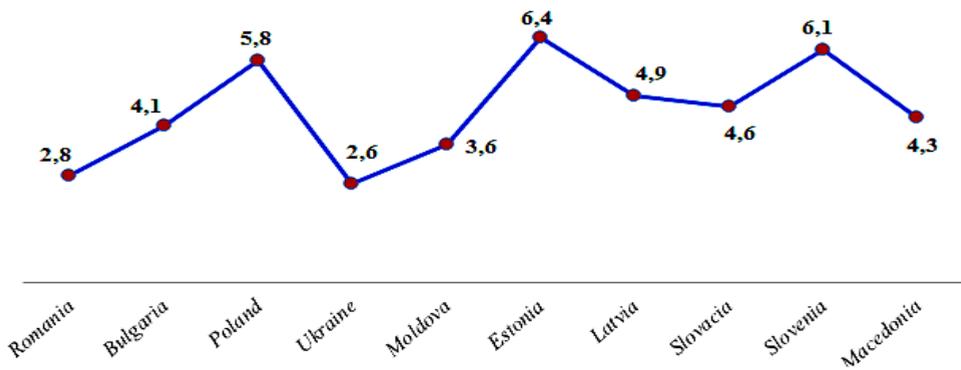


Source: World Bank, *Worldwide Governance Indicators*, available at <http://info.worldbank.org/governance/wgi/pdf>

If we consider another informal institution such as the *level of corruption*, we will also see that there are also outstanding differences between nations. In fact, the major features remain almost the same because the highest levels of corruption are associated with lower values. As illustrated in Figure 3 below, the most transparent nations are also the Baltic States, Slovenia, Poland and Slovakia. It seems that favorable informal background allowed the transition process to real market dimensions, inclusively to healthy institutional arrangements. Unfortunately, we cannot say the same thing about Romania, which still encounters significant problems in terms of institutional efficiency and furthermore, quality of unofficial rules. From this viewpoint, Romania is placed closer to Ukraine, with a problematic level of corruption. This emphasizes that *Romania is path dependent*, despite so

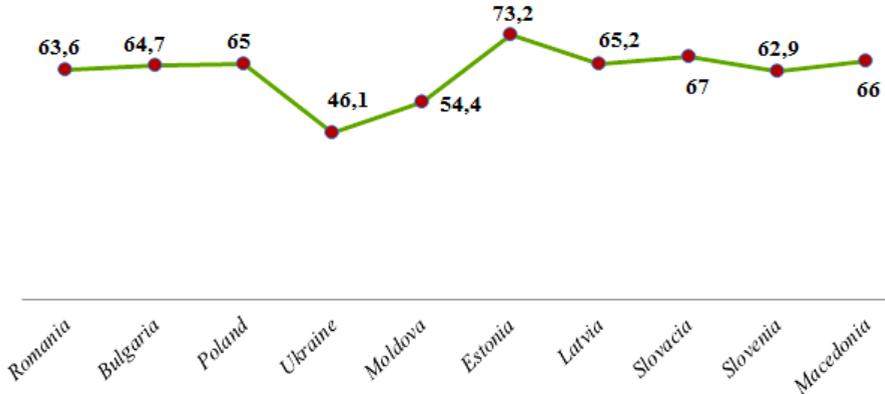
many years spent under the protective “umbrella” of the European Union. Such reality highlights the fact that values of past experiences vitiated so badly the informal institutional basis that its inertial character became the DNA for the metamorphosis of the entire social organism.

**Figure 3. The level of corruption**



Source: Transparency International – *Corruption Perception Index 2012*, available at <http://cpi.transparency.org/cpi2012>

A clear differentiation between Romania and the other ex-soviet countries in terms of the progress made after the European Union inclusion is illustrated by *the level of economic freedom*. Even though the institutional informal background is not that favorable to major economic and social performance it might be observed a visible improvement of formal institutional rules. As pointed out in Figure 4, Romania has made significant changes related to trade openness, property rights efficiency, the level of State regulation, especially after 2007, in order to attract higher volumes of foreign direct investments, to intensify trade flows, etc. Under such circumstances, we might admit a positive change which occurred after the European Union adhesion that determined a higher level of economic freedom, but not strong enough to induce a complete economic improvement.

**Figure 4. Level of Economic Freedom**

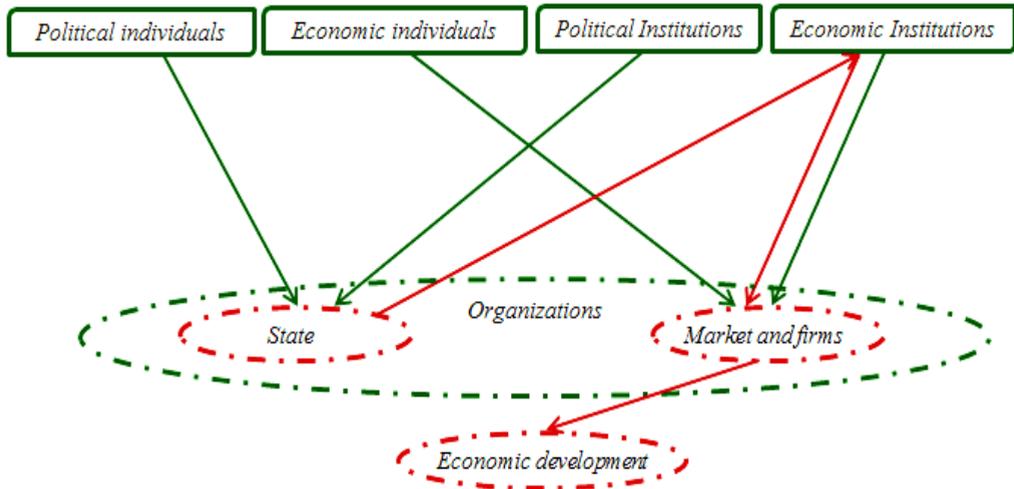
Source: Heritage Foundation – *Index of Economic Freedom 2012* available at <http://www.heritage.org/index>.

As shown in Figure 4, Romania almost reached the level of economic freedom of some nations with higher results in terms of economic dynamics, such as Slovenia, Slovakia or Poland. Even so, its economic freedom index remains behind Bulgaria, which enjoys a better position within the EU nations. Undoubtedly, corruption, high bureaucracy, a lower of legal system efficiency in settling disputes between economic agents remains problems which inhibit the amplitude of changes and good initiatives. In other words, experiences of the past are still guiding as an “invisible hand” the path to development and social progress. From this point of view, Romania shares the same unhealthy values and attitudes that are prominent in countries like Ukraine or Moldova, where the attachment to ex-soviet traditions is still alive.

As we have already highlighted, the quality of the rules of the game is conditioned by cultural valences of each society. Rooted in a society, culture has the power to shape collective action and the behavior of the State and therefore, the quality of formal institutions. Healthy rules illustrate a premise for prosperity and progress. On the same wavelength we might nominate Joseph Stiglitz, who considers strong market institutions responsible for the success of economic reforms (Stiglitz, 1999, p. 24). Unfortunately, the path dependency phenomenon affects not only the quality of formal rules, but also the behavior of individuals, institutions and organizations. In this latter category we include the State on the one hand, and firms and the market on the other hand, respectively. Obviously, nations such as Poland, the Czech Republic, Estonia or Slovenia explored significant economic dynamics, given the fact that the functioning of the three pillars was supported by good and efficient institutions. Conversely, countries like Romania, Bulgaria, Macedonia, Ukraine, even Moldova and other Eastern states were confronted with poor

economic dynamics because of the unhealthy informal institutional background which vitiated the conduct of individuals, State, even of organizations. In this latter category of nations the path dependency effect is more prominent and has the ability to explain the unsatisfactory economic evolution. The mechanism which stimulates the economic development might be outlined as in Figure 5 below:

**Figure 5. The mechanism of economic growth with institutions**



Source: Borner, P. S., Bodmer, F., Kobler, M., *L'efficience institutionnelle et ses déterminants. Le rôle des facteurs politiques dans la croissance économique*, Études du Centre de Développement, Centre de Développement de L'Organisation de Coopération et de Développement Économique, 2004, p.33.

As highlighted in Figure 5, the State is composed of both politicians and political institutions, since the market and private sector are guided by economic institutions (property and contractual rights) and economic agents. Such institutions are highly dependent on the political area, if they are imposed by the elites which have the power or not. When the economic sphere is governed by the pecuniary interests of politicians the miracle of the market is shattered in the shadow of institutional inefficiency. This is what is happening in the latter group of countries where the level of economic development remained inadequate to democratic requirements, especially for the particular case of Romania, where the claims are higher in the context of the EU membership. Institutions are vital for the analysis of the economic area in time and space, so we admit that such review can be achieved only in full compliance with it.

### 3. CHAOTIC TRANSITION ANATHEMA AND POOR ECONOMIC DYNAMICS

Despite the perception according to which the transition process to market economy illustrates the needed “antidote” to revive the social organism after the intensive socialist exploitation, the reality of last two decades contest in patches this conviction. While some nations contrived to reach development, others, like Romania, are still facing with the corruption, bureaucracy and institutional inefficiency wounds. From this perspective we might admit that the extensive process of transition is firstly decided by the consonance between formal and informal institutional framework. United in the past by the affiliation to the Soviet bloc, the former satellite countries of Soviet Union have experienced differentiated economic dynamics after the implosion of the socialist regime. Placed, this time, outside the Communist orbit, most of these countries remain guided by the “invisible hand” of informal institutions which served as fundamental pillar in the construction process of the new democratic society. Cultural heritage is to be blamed for the considerable development gaps existent between countries from the continental area. The construction of a new institutional framework in inertial hostile circumstances illustrated the major challenge brought by the transition process for the particular case of Romania and Bulgaria. Unlike Poland, Estonia, Czech Republic, Slovenia, Latvia, Lithuania or Hungary, which took advantage of the “opportunity window” and followed the rapid transition to market economy (Balcerowitz, 1993, p. 1), Romania and Bulgaria have not tolerated the “creative destruction” process of old totalitarian rules. As Stark and Bruzst emphasized, these nations remained attached to the Russian model of “capitalism without capitalists” (Stark, Bruzst, 2002, p. 109). Informal institutions have shaped the new social construct of democracy on the inertial pattern of the past. In such circumstances, poor economic results of Romania in terms of transition arise from the initial institutional endowment that supported the building up of democracy.

On the one hand, by its very nature, the indigenous cultural profile was not that favorable to development. The honesty, obedience, the fear to experience and achieve new things, consideration of the moment, the lack of long-term vision were aspects easily manipulated on the socialism’s pathway and converted into real barriers. On the other hand, the Communism in Romanian version suffocated even the few favorable cultural traits inherited from the past. The institutional disease remains a factor of involution, despite insertion into the European Community. Market malfunctioning, the persistency of deviant behaviors such as opportunism, bureaucracy, corruption, ongoing institutional vices in both economic and political area, the inability to enhance a stable democratic framework certifies the path dependency myth. For Romania, all these shortcomings nourished by institutional inefficiency had the opposite effect to that envisaged in the early 1990’s (Witt, 2008, p. 548). From this perspective we admit that the Romanian society persevered in

errors and inconsistencies which have traced its evolutionary path on a parallel road to the development of the European Union nations, implicitly after the EU accession. Even though Romania had followed a shock transition to the market oriented economic system its results in terms of economic dynamics, it would have been the same, given the major impact of the unofficial norms. As Paul Fudulu noted, the poor results of the transition process might be explained in the light of the cultural-institutional gap, too large for Romania (Fudulu, 2007, p. 170). Taking into consideration that in the past the State had the commitment to plan everything, there were so many confusing challenges for the Romanian society during the transition period. Mentality is very hard to change, if not impossible sometimes. In other terms, there is an adaptability problem which encompasses the entire society, not only the working class (Pohoăț, 2009, p. 177).

Romania does not have a healthy moral tradition. The corrupt behavior emphasizes a symptom of social pathology. As Richter and Burke pointed out, corruption has become a *measurement unit* of institutional inefficiency, public sector being guilty for its diffusion. Aspects like the instability of the government policy, the privatization of public resources, economic fragility, asymmetric wealth dispersion are sources of corruption (Richter, Burke, 2007, p. 79). Romania is a living proof example that the former regime institutions and beliefs persisted under the veil of liberal ideas, determining inefficiency. Unfortunately, Romania is not even able to mime the success examples offered by the European Union nations. Under such context, the *theory of forms without substance* of Titu Maiorescu is more than representative. Formal institutional measures borrowed from the European area seemed to be totally incompatible with the informal inland background. According to the *interaction thesis* of Pejovich, the relationship between formal and informal rules might stimulate, or conversely, inhibit the economic development of the nations (Pejovich, 1999, p. 171). Institutional dynamics appears to be favorable to economic development when the metamorphosis of formal institutions is in totally accordance with the informal institutional substance, as highlighted in Figure 6 below.

**Figure 6. Positive institutional interaction**



As we might observe such complementarities between the formal and the informal institutional component will generate a new institutional mix that will allow transaction costs reduction, framing new conditions favorable to economic growth. The situation is more auspicious to economic and social prosperity when the rules are oriented to the protection of individual liberty, limitation of conflicts and the increase of labor division (Iacobuță, Frunză, 2006, p. 249). Conversely, when there is an incompatibility relationship between formal and informal rules of the game,

transaction costs will increase and the economic growth will be hindered. In this particular case, the economic dynamics will follow a downward trend, as illustrated in Figure 7 below.

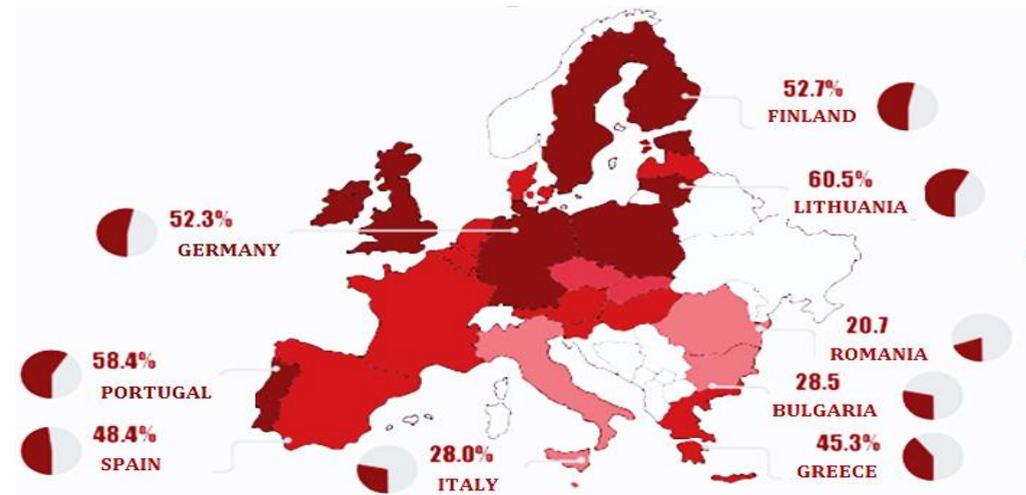
**Figure 7. Negative institutional interaction**



This latter case emphasizes the particular situation of Romania. Even though formal institutional area tried to be adapted to western democratic standards, especially after 2007, when Romania joined the European Union, unfortunately the informal component vitiated the success of such changes. The extensive process of institutional modification requires a concerted action of both categories of official and unofficial norms (Marinescu, 2007, p. 103).

In spite of the EU membership perceived in the past as the needed “vaccine” for economic rehabilitation, Romania’s reality shows a different landscape. Corruption and serious economic disruption of the legal sector functioning were not redressed until present. Furthermore, the economic problems are generalizing in the context of more than six years spent under the European Union protection and the numerous aid funds for development. The accession to the EU is a formal one and worthy of formal insertion status. Unfortunately, this major step to healthy democratic principles was unable to generate the needed internal echo. Romania definitely requires a major institutional changing process that must begin on the inside of the social organism by changing the informal substance and then continue on the outside area of formal rules of the game. The same informal inertia is to be blamed for poor results in terms of the European funds absorption rates. Given the informal institutional inefficiency, high level of corruption, bureaucracy and opportunism, Romania was ranked as European country with the smallest proportion of attracted funds for cohesion and development, with only 7.46% in March 2013 (the Romanian Ministry of European Funds, 2013). Undoubtedly, Romania has much to learn from other European countries that are able to convert such funds into a significant source for economic development and social prosperity. Poland, for example, is the largest recipient of Structural and Cohesion Funds according to the latest statistics (Inside Europe, 2013). Countries like the Czech Republic, Slovenia, Slovakia, are also in better positions with higher levels of absorptions. The general overview of absorption rates highlighted some major problems in terms of informal institutional quality for Romania. From this viewpoint, Romania had in 2012 the lowest percentage of funds paid by the Commission from the entire allocated amount of money. The situation might be seen in Figure 8, as follows.

**Figure 8. European funds absorption rates - percentage of funds allocated per Member State paid by the Commission**



Source: Inside Europe, *Absorption Rates*, <http://insideurope.eu/art-countries>.

As we might observe, Romania was confronted in 2012 with the lowest percentage of funds paid by the European Commission, of only 20.7%. Bulgaria had a better position, with 28.5% of money paid. Internal corruption, bureaucracy and opportunism made the payment process more difficult and less transparent in the eyes of European officials. As we observe, such unfavorable informal values do not create problems only in terms of the European funds absorption, but in other more delicate aspects with serious implications on poor economic dynamics.

## CONCLUSIONS

After more than six years of European Union membership, the economic results of Romania remained poor in comparison with other developing countries which joined the Community in 2004. The economic dynamics analysis of nations which experienced the Communist regime in the past illustrates a capturing subject for the recent economic studies. Even though such aspects might be explained in the light of natural resources, production factors, human or social capital, such factors were not able to provide a definite and clear answer to the existent development gaps between countries all over the world. Within the European continental area we might observe some prominent development disparities between nations united in the past by the partisanship to the Soviet Union. After the collapse of the socialist regime each country followed a separate and distinct path, favorable for some of them but harming for others, inclusively for Romania. In the specific terms of Institutional

Economics, all these discrepancies might be explained through the path dependence phenomenon. The experiences of the past synthesized in cultural values, beliefs, attitudes, and behaviors have the power to guide as an “invisible hand” the path of transition. In Romania those informal rules perpetuated the same wrong values inherited from past experiences, such as: corruption, bureaucracy, opportunism which veiled the entire process of social metamorphosis.

Although the accession to the European Union was considered a chance to reshape the Romanian democratic framework on stable coordinates, after more than six years spent under the European “umbrella” real progress is missing. Despite all multiple attempts to imitate good formal initiatives tested and successfully implemented by other developing European nations, once relocated in the Romanian institutional perimeter, they were unable to generate the same positive results. Undoubtedly, the unofficial institutional background is to be blamed for all these poor economic and social results. Their rigidity was stronger than the effectiveness of the new formal initiatives. In other words, there was a negative institutional interaction between the formal and informal component which vitiated not only the path of transition, but the economic evolution as well, in the new context of the European membership. Under such circumstances, we might observe Romania’s formal insertion into the European Community, which strengthens the belief that Romania definitely needs an incremental institutional change. Such complete metamorphosis must begin from the inside in order to model the dominant informal component and must end with the transformation of official rules. In our opinion, this will be the greatest challenge that Romania must face in the 21<sup>st</sup> century in order to achieve the economic performance of Poland, the Czech Republic or the Baltic states.

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# INSTITUTIONS AND THE LABOUR DYNAMICS: ROMANIA IN THE EUROPEAN CONTEXT

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**Abstract:** *This paper explores the traits of the labour market in Romania, compared to the general tendencies in the EU. It adopts an institutionalist perspective, contrasting the impact of regulation with the structural problems of the Romanian labour market. By looking at such indicators as the level of public employment, self-employed persons, or percentage of manufacturing employment, this study delineates the challenges embedded within the labour market in Romania, as characteristics of this country, as well as others in Eastern Europe. One of the main findings of this study is that many of the problems of the Romanian labour market remain hidden from general quantitative assessments, and policy-making needs to be informed by in-depth analysis of the underlying structures.*

**Keywords:** employment, institutionalism, Romania, European Union.

## INTRODUCTION

This paper analyses the dynamics of the labour market in Romania, in connection to the institutional influences exerted by national and supra-national agents. Given the integration process, much of the national policy-making is influenced by the European Union. Considering the relationship between institutions and the different sectors of the economy, such as the labour market, the increased coordination of the policy-making process, would normally lead to similar trends of the economic indicators in different member states. But, there are salient structural problems embedded in the specificities of each country. This paper attempts to analyse some of these structural particularities in Romania. It also goes further, by linking the Romanian labour market dynamics to those in the EU, or other Eastern and Southern countries.

This study is a process tracing analysis of how different governmental policies and institutional framework influence the labour market dynamics in Romania. In the first part of this paper, we consider some theoretical foundations of the relationship between institutions and the labour market. Adopting an institutionalist perspective, we support that poor-quality institutions—be they bodies, or regulation, generate severe economic problems, while ‘good governance’ or an able institutional framework is the main determinant of economic performance (Chang 2011,

Acemoglu et al 2005). The second part of this paper deals with empirical data from the case study, and the broader European context. We analyse the progress and persistent challenges embedded in the Romanian labour market by looking at such indicators like general employment level, public employment, or the number of self-employed persons.

## 1. PUBLIC POLICY AND EMPLOYMENT

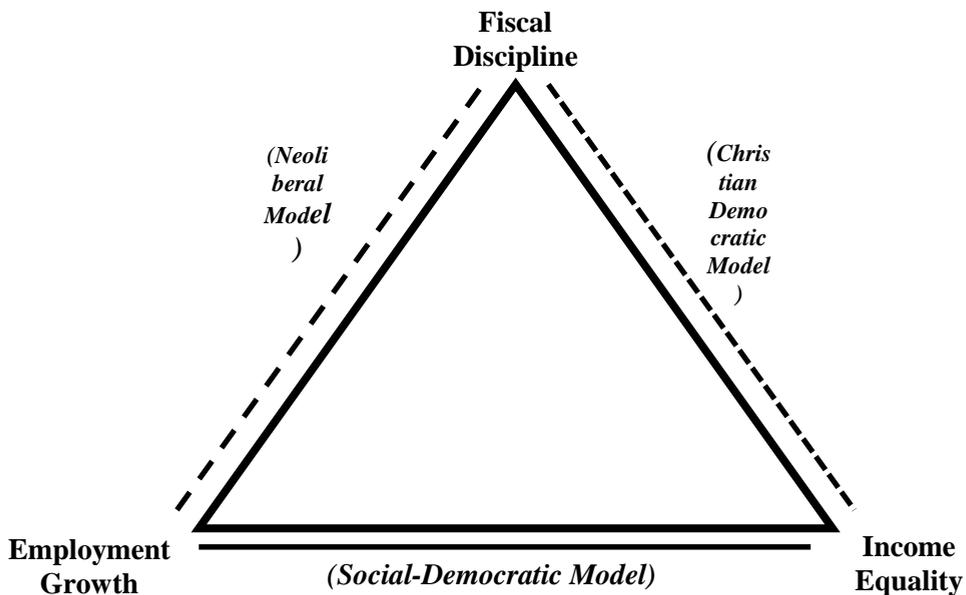
In order to assess the relationship between institutions and the labour dynamics in Romania, we must firstly establish what the term ‘institutions’ means. This paper adopts an institutionalist approach, looking at the rules and norms, as well as the organized institutional structures that constrain and influence the labour market in the chosen case study. As such, we adopt North understanding of institutions as ‘humanly devised constraints that structure political, economic and social interactions’ (1991). Economic agents are thus seen as being responsive entities that follow and uphold the institutional signals. Following through this understanding of the institutions’ role in the economy, the labour market seems to be particularly responsive to such institutional signals, and their impact is interesting to assess. Equally important to acknowledge is that institutions are the result of economic agents efforts to control their environment and reduce uncertainty (Menard and Shirley 2005). As such, the level of uncertainty, or instability in a given economy is an indication of institutional performance.

With regards to the different institutional levels, we find an interesting situation in the case of the EU member states. According to the multi-level governance theory (Piattoni 2009), interdependent, but politically independent actors make collective decisions that apply to different territorial levels. In the case of the European Union, for which the concept of multi-level governance was constructed, this means that policy decisions are equally influenced by national governments, and other national actors (ex: pressure groups, civil society), as well as supra-national actors—the institutional bodies of the European Union. Linking this fact to the institutionalist theoretical prescription, we find that the policies applicable to the labour market, as the example discussed in this article, in their quality of institutional instances, have to be supported by agents from within, and outside the polity. To put it more concisely, such institutions as the fiscal policy, that structure the labour market in Romania—our case study, belong both to the national, as well as the supra-national arena.

The labour market throughout Europe has suffered successive destabilizing threats, with the current economic crisis being only the tip of the iceberg. As such, many debates in the literature have covered the topic of the labour market dynamics and changes. For example, two decades ago, the major preoccupation was with the shift away from the manufacturing jobs to service jobs (Iversen and Wren 1998). Ideological considerations informed how governments reacted to the labour market

challenges. Left wing political parties often sided with labour unions, and tried their best to prevent rising unemployment, and inequalities of income. Consequently, ‘the government can assume the responsibility for employing workers at relatively high wages by expanding public sector consumption’ (Esping-Andersen 1993). Right wing political parties have been traditionally much more preoccupied with keeping the labour costs down, as well as controlling the inflation, and keeping the economy competitive. Much of the theory of policy models and their inherent trade-offs is captured in Iversen and Wren’s Trilemma of Public Spending (see Figure 1).

**Figure 1. Trilemma of public spending**



Source: Iversen and Wren (1998)

Looking at the choices of public policy with regards to the labour market, we find an interesting Trilemma (Iversen and Wren 1998, Wren 2008)—governments can choose only two out of three desirable outcomes: employment growth, income equality, and fiscal discipline. For a long time, the reality of politics, especially in Western Europe, concurred with the theoretical prescription of the connection between the ideological background of the ruling political party, and implicitly the supporting electorate, and the policy mix that party will pursue. Unsurprisingly, this expectation no longer holds truth. In the face of rising economic and political instability, the governing parties, usually constituting across the spectrum coalition

governments, have been increasingly pragmatic in their policy choices, attempting to improve the policy mix, or the institutional performance, by responding to concerns from across the board. As such, social democrats are well concerned with fiscal balance, as much as conservatives or liberal parties are trying to support employment growth, or prevent the spread of inequalities. The main reason right-wing governments have become concerned with inequality is that it inevitably leads to costly redistributive policies (Alesina and Rodrik 1994), demanded by the electorate sooner or later. When the structure of income distribution is skewed, whether it is inadvertently so, or as a result of deliberate public policies, other imbalances follow, straining the budgetary equilibrium.

This newfound openness to wide-ranging solutions is not only based on necessity—with increasingly more stringent problems affecting EU economies, but also by the recorded success of such endeavors. Interestingly enough, evidence of performance of Lisbon objectives, across EU member states, shows that ‘equity and efficiency, or liberalization and the welfare state, are not mutually exclusive but may actually support one another’ (Hopkin and Wincott 2006). Furthermore, many policy choices at the national level are now the result of concerted decision-making at the EU-level. A pronounced tendency towards coordinated fiscal policy emerged from the wreckage of the financial crisis. Institutional solutions, among which the newly established fiscal coordination mechanism “European Semester”, make the EU decision-makers and national governments equally responsible for the institutional impact on the economy.

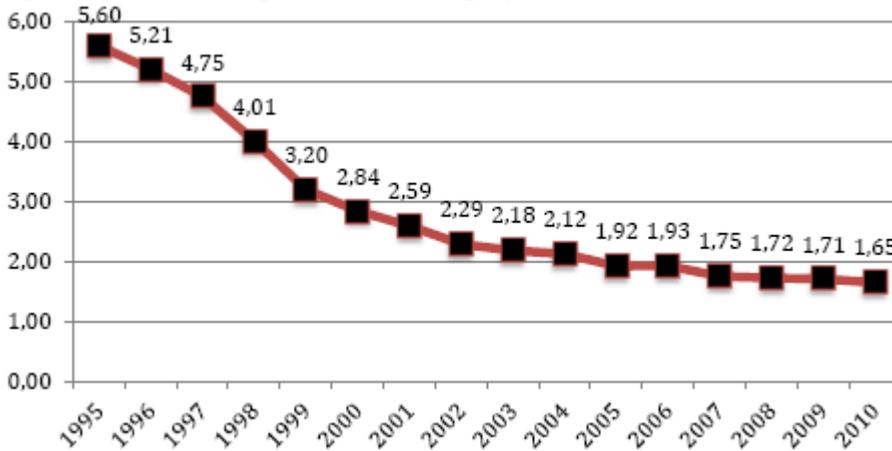
## **2. ROMANIAN LABOUR MARKET DYNAMICS IN THE EUROPEAN CONTEXT**

As opposed to other member states in the EU, Romania has a poor performance of both quantitative and qualitative evaluation of its labour market. But, on the positive side, it has recorded a steady improvement. In terms of general employment, Romania registered a figure of 63.8% in 2012, which is below the EU average of 68.5%, but is above other periphery countries such as Bulgaria, Hungary, Italy, Spain, or Greece. In terms of qualitative indicators, we can turn to the Lisbon strategy aims evaluation, conducted by the World Economic Forum. From the seven Lisbon strategy aims, two are most connected to the labour market: improving the enterprise environment and increasing social inclusion. Improving the enterprise environment deals with business start-ups and the regulatory framework, thus aiming to ‘reduce the administrative impediments to doing business in the EU and reducing distortionary or burdensome taxes’ and to make it ‘cheaper and easier to start a business and ensuring access to capital for new businesses’ (WEF 2010). On the other hand, the chapter on increasing social inclusion aims at bringing people to the workforce, upgrading skills and modernizing social protection. Romania scores consistently low on both these categories of concerted efforts. According to the

World Economic Forum evaluations in 2004, Romania registered the third lowest score in the European Union on Improving the Enterprise Environment—3.65, and the fourth lowest score on Social Inclusion—3.74. There is a nevertheless a slow improvement along these lines, as in 2010, it moved four places up in the first evaluation, and two places up in the latter.

In terms of the institutional framework, Romania has done its best to provide employment stimuli. The Implicit Tax Rate (ITR) is the ratio of taxes and social security contribution on employed labour income to total compensation of employees. Across the EU, the policy target is to decrease taxes on labour, so as to lower the costs, and thus stimulate general employment. Still, despite the member states best efforts, the high ITR levels confirm the widespread difficulty in achieving this goal (Eurostat 2012). Romania however is one of the few member states with marked decreases of the ITR in the period 2000-2012. The decrease of 6.2 percentage points of Romanian ITR is comparable to the levels registered in such Nordic countries as Denmark or Sweden. Still, it falls shorter than half of the efforts of Bulgaria, which manages to stir its fiscal policies so as to decrease its ITR by an impressive double-digit figure (the only one in the European Union)—13.7 percent. Still, from the implicit taxes point of view, Romania managed to provide one of the most fiscally attractive economic environments for labour in the European Union. Still, problems related to the labour market persist, and this is often the result of structural imbalances, rather than institutional problems of regulation.

As mentioned above, another subject of concern, and heated debate is the transition from manufacturing jobs, to service jobs. As framed in the public spending trilemma's (see Fig. 1) theoretical model, left-wing political parties have generally supported corrective policies for the imbalances generated by this transition—unemployment, increasing wage inequality etc. Consequently, 'protecting existing manufacturing jobs, bringing back lost ones, and creating new ones is a perennial aim of the left' (Kenworthy 2013). Still, across the developed world, manufacturing's share of general employment has been steadily decreasing, from an average of 23% in 1979 to an average of only 15% in 2007 (OECD data in Kenworthy 2013). Reversely, services share of total employment has grown substantially. The EU has an average level of employment in services, in 2013 of 70% (Eurostat 2012). But, Romania hasn't adhered to this trend. Here we find only 42.6% of general employment in services. This wouldn't necessarily be a wrong thing, if the biggest share of the manufacturing employment wouldn't be in agriculture—a sector marked by numerous problems, and poor reform progress. If the employment in agriculture at the EU level is around 5%, Romania registers a figure much bigger—28.6% of general employment is in agricultural activities.

**Figure 1. Number of public sector employees in Romania (millions)**

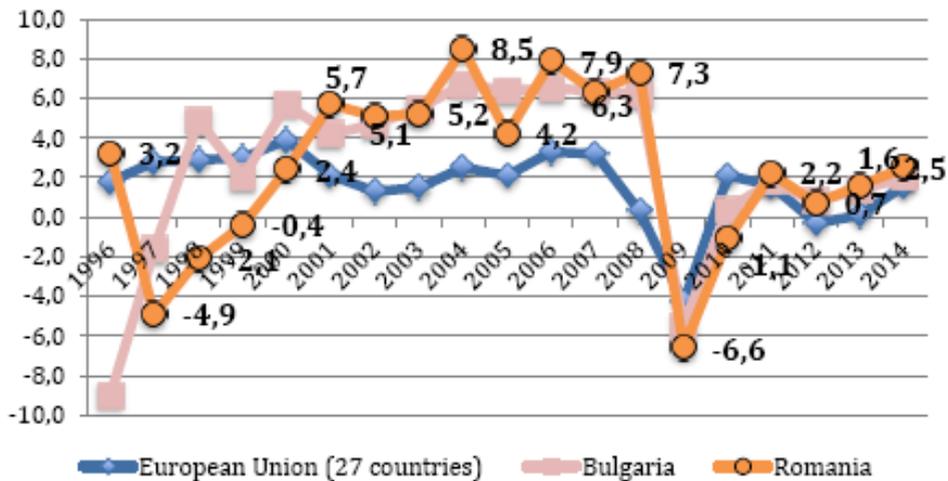
*Source:* ILOSTAT and LABORSTA

In what concerns the service jobs sector, it is itself split between market-oriented services—in the financial sector, the trade sector, information, or accommodation services, and non-market services, comprising mostly jobs in the public sector, but also other fields. In general terms, Romania has a percentage figure of employment in non-market oriented services, which is half the EU average—16.3% as opposed to 30.4% (Eurostat 2012). Within the public jobs category, one of the most intensely analyzed sections is that of the public administration, or state apparatus, because the various forms of state exploitation occur through this category of public jobs (Volintiru 2013). Despite a relatively smaller size than other EU countries, Romania's public administration is generally perceived to be oversized, wasteful, corrupt, as well as discretionary (WEF 2007-2011). Coming back to the broad category of public sector employees in Romania, the actual numbers are also constantly decreasing over the past decade, from over 5 millions in 1995, to 1.6 millions in 2010 (see Figure 1).

The downsizing of the public sector in Romania is not necessarily connected to the economic trends. As showed in Figure 2, the dynamics of the GDP in Romania have been relatively healthy. While the Romanian economy has been underperforming, by this indicator, in the period 1997-2000, when it had much poorer performance than the EU average, or its neighbor, Bulgaria. In the period 2000-2009, the economic growth in Romania has been rather sinuous, with sharp increases, and decreases, but remained constantly over the EU average. Since the marked decline in 2009, with -6.6 percentage points from the previous year, Romania remained within the general European tendency, registering a slow, but steady improvement. Thus, returning to the employment levels in the public sector, we see that public policies have played a significant role in shaping the dynamics of this

sector, given that the trends aren't connected to the expansion or contraction of the Romanian economy.

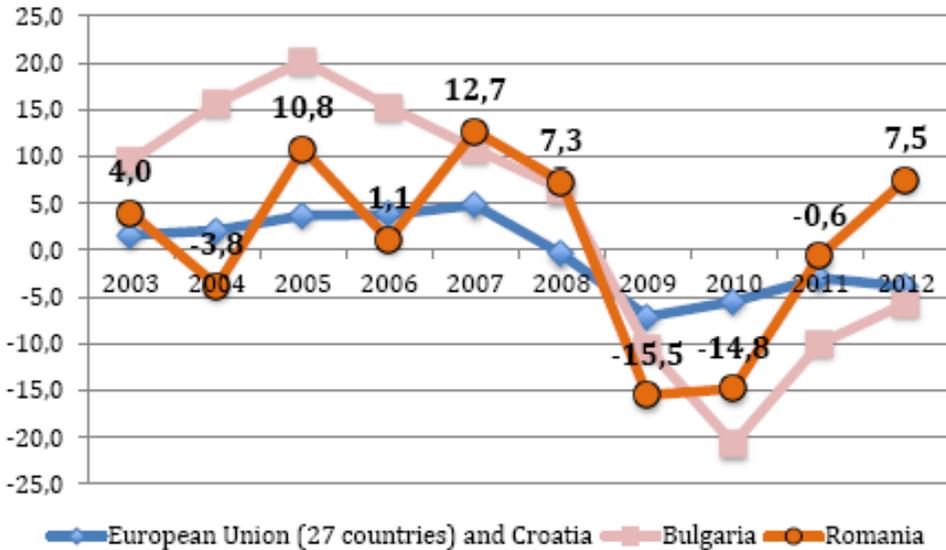
**Figure 2. GDP dynamics (1996-2013)**



Source: Eurostat

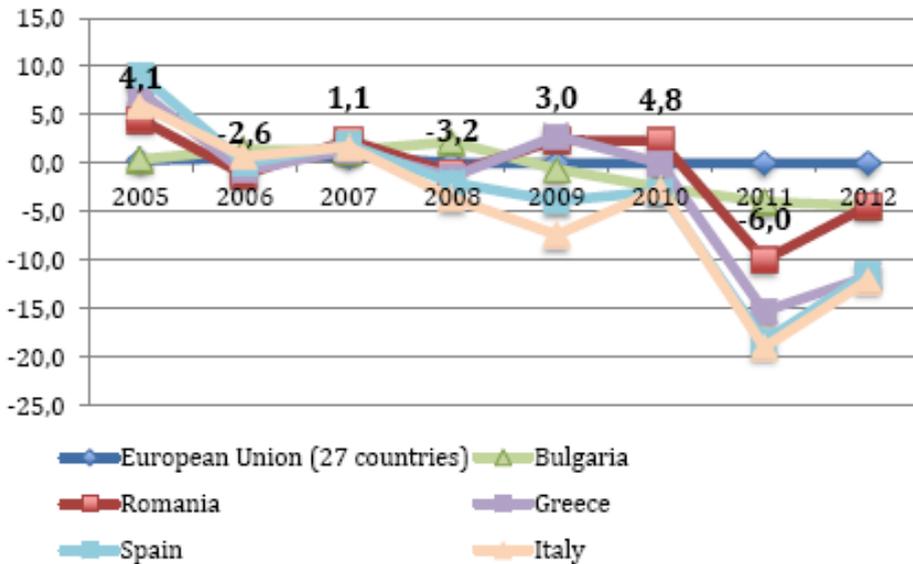
Another area of particular interest for the Romanian labour market is the construction sector. Many Romanians activate in this field, whether at home, or abroad. According to Eurostat data from February 2013, Romania is one of the few countries registering an increase in terms of construction works (Eurostat News release 61/2013). Thus 5 percent increase from the previous month is in stark contrast to the 0.4 percent decline at the EU level. Still, such intermediary data—monthly assessments, is only telling of momentary peaks, as in terms of year-to-year evolution, Romania registers a decrease of 4.3 percentage points (Eurostat News release 61/2013). But, in terms of persons employed in construction, we see a sharp increase between 2011 and 2012, of 7.5 percentage points (see Figure 3). This means that construction works contribute to a positive trend in the general employment. With bigger fluctuations than both the EU average dynamics, and the Bulgarian dynamics of employment in construction, Romania has managed to register good performance of this indicator over the past couple of years. While not strictly mirroring the general economic trends, the employment in construction is much more closely correlated to the GDP evolution (see Figure 2), suggesting it is a rather autonomous sector, that doesn't need special policy provisions, as long as the construction market is healthy.

**Figure 3. Persons Employed in Construction (percentage increase from previous period)**



Source: Eurostat

The European Employment Strategy (EES)—defined as ‘a mechanism designed to coordinate the employment policies of the EU Member States’, is built around four pillars of employability, entrepreneurship, adaptability and equal opportunities (Eurofound). Of particular interest for Romania is the pillar of entrepreneurship, which aims to increase the number of self-employed persons in the EU, by reducing tax and social security obstacles to this form of economic activity (Eurofound). This is interesting from Romania’s point of view because it consistently had a high percentage of self-employed persons out of the total employment. In 2012, for example, it registered one of the highest figures in the European Union—18.2% self-employed of total employment, securing the fourth rank amongst member states, well above the EU average of 14.6%. As showed by the 2012 ranking, Romania is more similar to the Mediterranean states in this regard, only Poland being another post-communist country with high levels of self-employed. If we turn to the evolution of the number of self-employed persons over the period 2005-2012 (see Fig 4), we see that Romanian dynamics are indeed more similar to those of other Southern European countries, such as Greece, Spain or Italy, than from its neighbor, Bulgaria. This means that, despite consistently high levels of self-employed, with figures exceeding the EU average in 2009, and 2010, Romania has registered a sharp decrease from 2010 to 2011, of 6 percentage points.

**Figure 4. Self-Employed Persons (percentage increase from previous period)**

Source: Eurostat

The detailed situation of the self-employed category, in Europe, and Romania, raises nevertheless certain questions. Mainly, it is a subject of in-depth research, far beyond the limited coverage of this paper, to what degree this group of people represents entrepreneurship, and as such can be seen as a vector for economic development, or merely a refuge category for those who no longer fit into the mainstream employment system. A worrisome aspect is the fact that the biggest category of self-employed, at the EU level, is constituted by the over 65-age group—49.9%. In Romania, this figure is much higher, reaching 66.8% of total self-employed persons. This situation is partly due to the fact that this category tends to postpone retirement, being in charge of its own professional evolution. The stimulus for postponing retirement is, among other things, that active life incomes are usually bigger than normal pension schemes. Two sets of implications emerge from this fact. On one hand, on the positive side, which is captured in the objectives of the Lisbon aim for Social Inclusion discussed above, continuing one's practice over the retirement age relaxes to some extent the generalized pressure on the public pension system, and contributes to an fulfilling life, when this is possible. On the other hand, on the negative side, this prolonged professional activity cannot be equated with entrepreneurship and innovation, and as such is hard to link it to actual economic development.

Another problematic aspect of this employment category is that in the case of Romania, a high-percentage of self-employed belongs to the agricultural sector—over 71%. Once again, this raises questions about the actual contribution to

entrepreneurship of the self-employed category. While the political sphere tends to elaborate policies for this group that target them as innovators, founders of start-ups, and drivers of progress, the situation tends to be slightly different in certain countries. As the data reveals, the self-employed category in Romania is not predominantly constructed around activities of entrepreneurship, but rather around activities that had to reconvert themselves. In the case of the agricultural sector, with the transition from the centrally planned economy of the communist period, to the market economy, many employment structures of the agricultural sector, such as cooperatives, disappeared. As a result, people continuing to work in the agricultural sector have become self-employed. With a poor reform record, this field remains largely atomized and based on production that often only slightly exceeds own consumption. The challenge of reforming the agricultural sector, without generating poverty for those currently employed in this field, is as stringent to Romania, as the other post-communist countries in the region.

Finally, there is another category of the labour market that brings forward the need for closer consideration: the group that is generally referred to as not-in-employment-education-or-training (NEETs). This category refers to young people, for the European studies considered to be those under 30, which fall outside the usual employment or unemployment indicators. This category has been sharply increasing over the past years, demonstrating the disproportionate impact of the economic crisis on young people. While the NEET's percentage of the total population has increased by an average of 17.6% in the European Union, in the period 2008-2012, it has increased by over 44% in Romania (Eurofound data). This is of particular concern, because on the one hand, there are significant costs resulted from the economy's failure to fruitfully employ young people in the labour market. On the other hand, these are persons usually referred to as 'a lost generation', who by missing the start on a professional career will have even more pronounced tendencies to earn income within a shadow economy.

## CONCLUSIONS

This paper aimed to open up the discussion about some of the most relevant aspects of relationship between governance and the labour market in a EU member state. It is merely a stepping stone for further study on the actual structure of this relationship—how and why they are connected, and how do certain policies influence the dynamics of the labour market. Still, it is important to acknowledge that there is a connection, and that in this time of increasing economic instability, the governments have increased responsibilities with regard their citizen's well-being. The theoretical prescriptions discussed in this paper tend to link different ideological platforms to certain policy choices in regulating the labour market. While this model

explains some of the differences across time and countries, it loses ground in the face of increasingly integrated decision-making within the European Union.

As a result, as this paper argues, some of the national dynamics in the labour indicators are generated by structural specificities. We looked at the levels of public sector employment, or the self-employed category and found that Romania's transition from the centrally planned economy to the market economy has left persistent marks, such as the big proportion of employment in the agriculture, or the low percentage of services employment. These imbalances can be corrected by institutional means, and the recent fiscal policy approach has been consistent with this target—Romania having one of the lowest ITR's in the EU. Still, many of the problems of the Romanian labour market remain hidden from general quantitative assessments, and policy-making needs to be informed by in-depth analysis of the underlying structures

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**Session V: Regional development and  
European governance: achievements,  
obstacles and incentives**

# SOCIAL RESPONSIBILITY AS A STRATEGIC TOOL FOR THE EUROPEAN ADMINISTRATIVE SPACE

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**Abstract:** *Effective governance is an important key on which depends social welfare and coherent organization of society according to the needs and expectations of citizens. The success of XXI century organizations depends to a large extent by the search, discovery and effective use of the "talented managers", the leaders who know how to develop the organizational capacities to become efficient and to gain the competitive advantage on a market in continuous transformation. The particularities relating the strategic management and the tools used to develop public policies and social responsibility represents a scientific challenge as much more that European integration process creates an area without internal frontiers, a "European citizenship", also a European management. Social responsibility of organizations contributes to economic development while improving quality of life. Our study requires a deep knowledge of the strategic management tools used by the organizations at European level and social responsibility as key elements to increasing confidence of stakeholders with a profound impact on economic, social and individual level.*

**Keywords:** responsibility, social agenda, sustainable development, European policies, corporations.

## INTRODUCTION

Terms of social responsibility and ethics have become an integral part of business strategy. Company managers affect a large part of their speech to corporate social responsibility (CSR) issues in terms of environment, human capital, renewable resources, potential for sustainable development, social development. Ethics and values are essential for business success that can be achieved within communities. Corporate social responsibility (CSR) has been a major influence in the business world and in increasingly supported business models and standards. Notions of CSR and quality are strongly related to each other by ethical principles and respect for people. These principles were supported by Philip Crosby (1986), W. Edwards Deming (1986), Joseph M. Juran (1993) and Kaoru Ishikawa (1985).

Philip Crosby spoke about integrity, W. Edwards Deming stated that removing barriers between employees and creating an ethical organizational climate based

on the principle are able to increase performance, Joseph M. Juran talked about behaviours and job satisfaction of employees, about people's values and aspirations that lead to success and happiness, Kaoru Ishikawa talk about happiness of people in the company, saying that if people are not happy then the company should not exist.

During the 90s, the Anglo-Saxon countries, continental Europe and then globally, the issue of corporate social responsibility has attracted the interest of businessmen, politicians, academics, small entrepreneurs; is a controversial topic with important implications on world trade . Interest for the subject is even more important as leaders of organizations sees a series of specific relationships that are established between the interested parties (stakeholders) involved directly or indirectly in business. In its work, the company (regardless of its form and status, industry, country of which the products sold etc.) should take account of conflicts arising from the many interests that are "under one roof" as they will determine endangering the efficiency and productivity, as well as negative effects that will alter the broad masses of the population. Appears appropriate in this context the establishment of standards of good practice by any organizations on the effects or results of its activity may have on the parties (whether directly involved, partners or beneficiaries, the population as a whole). An important role is held by managers who are both player and part and with impartiality, to ensure fair distribution of profits (and losses) and to take responsibility for organizational policy decisions.

## **1. CORPORATE SOCIAL RESPONSIBILITY (CSR) – KEY FACTS**

Corporate social responsibility is defined in terms of social impact, environment and systemic activities (Bercu, Onofrei, 2011). Changes in economic, social and political of past century have forced a reconsideration of the role of the organization (enterprise) globally by redefining its mission. The dynamics of world trade requires continuous adaptation to the new company and a review of the functions that it has: an end to economic function becoming more of a social function and economic results are interpreted and evaluated according to social indicators. In 1999, Kofi Annan, Secretary General of the United Nations, urged the world's business leaders to join an initiative called Global Compact, which would bring companies together with United Nation agencies and civil society to define and implement the best principles corporate governance in the social and environmental fields. Corporate social responsibility in Europe was a legitimate national concept before it was debated at European level. In 1994, the Danish Minister of Social Affairs has started a campaign in social responsibility as a common concern of public and private leaders and created the Center in Copenhagen on corporate social responsibility. In the UK, a ministerial group was created in March 2000 to implement and develop governmental action in this area. In France, the issue of corporate social

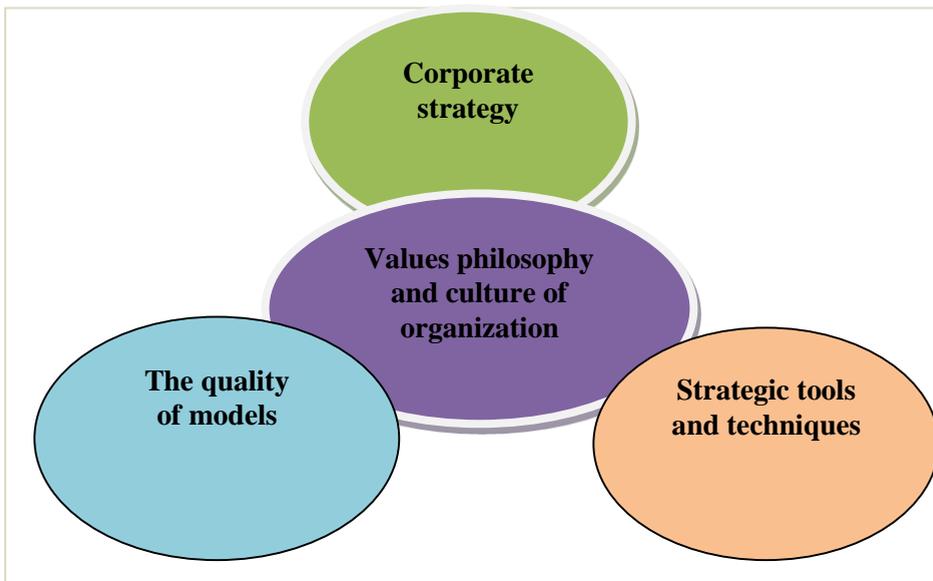
responsibility is confirmed that the subject of analysis and discussion through legislation such as Law Barnier in 1995, followed by the Law on spatial planning and sustainable development in 1999 and Companies Act in 2001.

The aim of our work is to analyze the principles that define the concept of corporate social responsibility in terms of regulatory acts in Europe, the policy at the level of European administrative space, the assumption that the effects of the business decisions have direct implications on society as a whole.

Malcom Baldrige defines the CSR through the criteria for performance excellence named *public responsibility and citizenships*. The Baldrige criteria establish that the managers should stress the responsibility for the citizens, ethical behaviour and the need to practice a good public policy. For the own organizations the leaders must represents models with ethical principles, in order to respect the rights of people, the safety at work, the environment and public health (Baldrige, 2003).

The CSR is a prospective process between corporate strategy, values philosophy and culture of organization, the quality models (Baldrige models) and strategic tools and techniques to implement at the organizational level (figure 1).

**Figure 1. The CSR as the strategic tool**



Source: Leonard, Denis; McAdam Rodney, Corporate Social Responsibility, Quality Progress, October, 2003, p. 29.

## 2. THE FRAMEWORK OF CSR

Paternity concept of Corporate Social Responsibility belongs to Bowen, who in 1953 showed that professional ethics in the business world means implementing a moral behavior; the latter become in fact, moral agents. McGuire and others (1988) have shown that CSR transcends economic obligations of the company, while Epstein (2001) shows that the standards established at the company have beneficial effects on interested parties (stakeholders).

Social responsibility is an imperative of performance and efficiency of organizations, and effective leadership is one of the most important for their study. Our research aims to analyze two dimensions of corporate social responsibility, as follows:

a. *Corporate social responsibility is a priority of European leaders* (not just those of management of corporations, but also policy-makers) in the sense orientation to business ethics and the need to review the impact that corporate activities have on the environment human health and safety in Europe. Put this question: What correlation exists between sustainable development-governance and corporate social responsibility? We start from the premise that for the European leaders CSR becomes a strategic tool that will generate new behaviours in the business.

b. In the European Union, *corporate social responsibility must be understood as a parameter to construct a coherent strategy* in this area. The question is: Corporate social responsibility is one of the components of sustainable development, the so-called triptych: sustainable development, social agenda and government? To what extent can European leaders to redefine corporate governance to meet the society in a fair, transparent and efficient.

Green Paper on "Promoting a European framework for corporate social responsibility" in July 2001 the European Commission meant stepping up actions in terms of social responsibility of organizations in Europe. Just one year after the Green Paper, the Commission published a Communication entitled "The Social Responsibility of Businesses: a Contribution to Sustainable Development of Businesses". Corporate Social Responsibility Europe was created later as a platform for discussion between stakeholders in Europe.

In 2004, a strategy was adopted in an attempt "to encourage the spirit of business" through corporate social responsibility defined by regimes in terms of environment, security, social policy. It can be said that from this moment corporate social responsibility has become a major concern European leaders, the principle of corporate governance as an instrument of European public policy decisions. Gilles Lipovetski qualify this new dimension as "a new relationship while" on the assumption that ethics in business (normative version) is a protector of the future, while stressing the need for long-term management to be able to ensure the success and growth of companies (Eberhard-Harribey, L., 2006).

### 3. THE DIMENSIONS OF CSR

European economy must to be more competitive and dynamic "knowledge economy" (Lisbon, 2001) to support economic growth through sustainable use of resources inclusive growth through high levels of employment, increasing skills and fight against poverty.

One of the frequently questions about CSR is about the voluntary or obligatory character. Is necessary to adopt strategic tools for voluntary CSR or it is needed to adopt some specific rules which must to become mandatory? For specialists this dichotomy means: *business case for CSR* and *society case for CSR* (Gonzales, Martinez, 2004). First discussion is about the perception of managers about their implication in establishing the strategic actions concerning financial and tangible assets, also the human and social capital. They discuss about performance in terms of benefits of their people. The market value of the organizations increase if the social performance defined like attracting of retaining employees, motivating, increasing loyalty and ethical behaviour. Second discussion implies the public policy and the entire society concerning the CSR. It's about the rules and provisions concerning the responsibility assumed not only by the private organisations (on voluntary basis), also by public organisations. The governments establish public policies to define the framework of public actions and to assume the results of these. Social responsibility is not just a term that explain some actions of authorities, also an indicator if the impact on the citizens is positive or negative. To sustain the social responsibility in terms of CSR some European states makes specific rules: Scandinavian countries (Norway, Sweden, Finland, Belgium, Holland and Germany), the United Kingdom establish some provision concerning the big companies through the National Sustainable Development Strategy, but in 2006 strategy was dropped because the government believes that the competitively and innovations of company suffers. An important case of government provision for CSR is established in France by a law voted in 2001. For French companies listed (700 companies) is mandatory to report the environmental and social impact (Delbard, 2008). The decree publishes in 2006 require:

- a. A list with internal societal data: workforce, hygiene, training, disable people, parity etc.
- b. A list with items concerning the territorial impact of firm activity;
- c. A list with elements of environmental nature: natural resource used, biodiversity, gas emanations etc.

The dimensions of CSR can be explained in terms of environment, human resource, health and safety (table 1).

**Table 1. The five dimensions, how the coding scheme was applied and example phrases**

<b>Dimensions</b>	<b>The definition is coded to the dimension if it refers to</b>	<b>Example phrases</b>
<b>The environmental dimension</b>	The natural environment	'a cleaner environment' 'environmental stewardship' 'environmental concerns in business operations'
<b>The social dimension</b>	The relationship between business and society	'contribute to a better society' 'integrate social concerns in their business operations' 'consider the full scope of their impact on communities'
<b>The economic dimension</b>	Socio-economic or financial aspects, including describing CSR in terms of a business operation	'contribute to economic development' 'preserving the profitability' 'business operations'
<b>The stakeholder dimension</b>	Stakeholders or stakeholder groups	'interaction with their stakeholders' 'how organizations interact with their employees, suppliers, customers and communities' 'treating the stakeholders of the firm'
<b>The voluntariness dimension</b>	Actions not prescribed by law	'based on ethical values' 'beyond legal obligations' 'voluntary'

*Source:* Dahlsrud, Alexander, How Corporate Social Responsibility is Defined: an Analysis of 37 Definitions, Corporate Social Responsibility and Environmental Management, Corp. Soc. Responsib. Environ. Mgmt. 15, 1–13 (2008)

The European Commission has identified corporate social responsibility more policy areas on which any company or government in the European Union should consider. These are (Bercu, Onofrei, 2011):

- A. *In health and safety at work.* Health and safety criteria have been included in their European businesses voluntarily. Reflecting the principle of corporate governance on social responsibility in behaviour organization in Europe is proving effective cooperation between Member State administrations and political leaders who understand that their responsibility is strengthening the social welfare of European citizens. According to the principle of mutual recognition, a multiplication of national legislation on security and safety at work would do nothing but distort the European labour market (Tofan, Petrisor, 2013). In these

circumstances, corporate social responsibility could become an instrument of harmonization of European legislation, favoring labor market access of European citizens with rights guaranteed by promoting the consumption of goods and services in accordance with the principles of good governance.

- B. *In human resources management.* The Commission stresses the need for responsible companies to use non-discriminatory practices in their activities, be transparent and to inform company employees to pursue their professional development throughout their lives. Assertions are in fact manifestations of social policy pursued by the Corporate Social Responsibility Europe. The three elements of lifelong education, equality and non discrimination between women and men at work and right to information is in fact triptych European social policy. Through CSR, the Commission justifies its entirety policy (issuing of directives on informing and consulting employees in Europe, or the principle of social dialogue held by the Maastricht Treaty).
- C. *In environmental policy.* Environmental Commission examines a number of economic and social indicators that contribute to socially responsible investments. This will lead to optimal functioning single European market. The corporate social responsibility, social and economic indicators are a necessity for the smooth business relationships and the requirements they impose production and business practices. It reinforces the fact two major EU policy: environmental policy (the generation of binding rules for environmental protection in the Member States) and political cooperation involving human rights, democracy and solidarity.

Triptych sustainable development, governance and social support corporate social responsibility agenda for several reasons:

- CSR is a relatively new concept, but the practice of responsible corporate action dates from the years 1920-1930 and is in direct correlation with productivity and work performance;
- Sustainable development is defined as the need for the development of present generations without compromising the ability of future generations to meet their own needs the social agenda is the document that defines the European Union's role in social development, economic and social rights of European citizens.

Sustainable development is a major element of economic and social development of Member States contained in the Maastricht Treaty. Were considered on Structural Funds reform, recognition of social dialogue (the latter a protocol recognized by the Treaty of Maastricht and validated by the Treaty of Amsterdam). Also, the charter of fundamental rights of citizens has been validated by the Treaty of Nice. However, evidence supporting the concept of

sustainable development was reflected in the Treaty of Rome which established common objectives for social development actions, recognizing the European Economic Community, in accordance with Article 117, the Community competence in health and safety work.

Regional policy and European solidarity is defined as the concepts of sustainable development.

Interrelations between sustainability and corporate social responsibility have been made only in 2002 through a European Commission communication. Knowledge of corporate social responsibility is a result of new forms of social and commercial pressures that have led to new perspectives and new values in top companies. Changing values led to new perspectives leading companies, the direct effect of globalization and information technology development. These major changes have opened new horizons and created new responsibilities for companies. Corporate social responsibility has become the most important element of sustainable development, regardless of the level of government to which we refer. Global governance and the link between business, investment and sustainable development are issues for discussion in social responsibility.

Based on these arguments, the Commission has become a leader in the European action, which aims to identify such binding rules for companies doing business. Promoting these values of corporate social responsibility must be made by national, regional and local government to improve relations with citizens. The European principle of subsidiary (Article 3 of the Maastricht Treaty) states that public authorities must adopt / issue decision closer to citizens. From the arguments above that CSR is a principle that governs companies (private, in particular) and explains the decisions and their effects on productivity and economic performance. However, involvement in social responsibility activities of public companies is all the more necessary because the impact of their decisions reflected in the social welfare of communities.

Corporate social responsibility should not be confused with a regular substitute for social rights and environmental standards. Commission recommended that Member States where there are regulations on environmental protection and social rights, efforts to focus on defining a fairly socially responsible practices. There are opinions that suggest that market rules are sufficient for good social practices rather than government intervention. Triptych corporate social responsibility, sustainable development and governance are in fact a fundamental objective of public policies adopted and implemented by state policymakers. Economic and social imbalances are the direct result of operators' behavior rather than a result of state intervention.

European space companies to base their decisions will be based on the principles of corporate governance, especially in social responsibility.

## CONCLUSIONS

The European Union is only an anchor for these principles, establishing a coherent public policy to promote corporate social responsibility. Union standards allow for building a system based on clear objectives and verifiable to ensure credibility of CSR practices. By proposing a Community reference framework, the Commission acts as a conciliator between agents who have different points of view, proposing a framework for cooperation, rather than a regulatory framework. European administrative space becomes a filter for the realization of this framework of cooperation and European corporate leaders must take account of social implications. Social responsibility becomes a transversal policy, impact on European public policy.

Europe needs of businesses that add value to society, developing entrepreneurship and creativity. It requires first of all business socially responsible as stated in the Spring Council in March 2005, when the Commission recognized that Corporate Social Responsibility "Can play a key role in contributing to Sustainable Development while Enhancing Europe's innovative potential and Competitiveness." The revised Sustainable Development Strategy (European Commission, 2005), the Commission called "on the Business Leaders and Other key stakeholders of Europe to engage in urgent reflection with Political Leaders on the medium and long term sustainability and Policies Needed for propose ambitious business responses Which go beyond minimum legal Existing Requirements".

Corporate Social Responsibility practices are neither a panacea nor a substitute for public policy, but contribute to defining the objectives of establishing a large number of public policy, the states and the European Union alike.

The Commission believes strongly that Corporate Social Responsibility matter for every European and actually defines the European social model. Corporate social responsibility contributes to sustainable development by increasing the innovative potential and competitiveness of enterprises. It is considered that the core of European partnerships is the taking charge of the economic effects it generates corporate decisions and which will generate new coherent values. European leaders and all stakeholders will make Europe a pole of excellence in corporate social responsibility.

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# CHALLENGES IN THE CENTRAL AND EASTERN EUROPEAN COUNTRIES DURING THE GLOBALIZATION AND ECONOMIC CRISIS

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**Abstract:** *In the past decade, the role played by the Central and Eastern European countries (CEECs) in the worldwide economy increased significantly, due to the major transformation these economies have undertaken. This paper aims at emphasizing the impact of globalization on the development of CEECs, through the major challenges this phenomenon and the economic and financial crises generated in the economy. The results of the analysis will show the favorable impact globalization generates, but meanwhile it will also highlight that in the last years it stimulated the transmission of turbulence and imbalances into the global markets because of the increase of the contagion effect. Further, the research will be expanded by including other EU countries or by making a comparison among the developed and developing economies.*

**Keywords:** globalization, crisis, foreign direct investment, growth, volatility

## INTRODUCTION

The economies of Central and Eastern European countries suffered a significant development, especially after the transition period from the planned and centralized markets to opened and interconnected countries. As part of the globalization process, these economies developed and implemented adequate national policies and strategies through which the perspectives for achieving higher rates of economic growth will be created.

In the worldwide market it is unanimously recognized the fact that the globalization process stimulated the growth of the Central and Eastern European countries, by enhancing the attractiveness of their economies for foreign investors. This has led to a strong ascending trend of the commercial and financial capital flows in the selected economies, increasing the interdependencies and connections among them.

The past economic and financial crises have shown that the increase of the openness degree in these countries under the favorable impact of the European economic integration and capital account liberalization generally has to determine positive economic growth in the selected countries but, meanwhile, causes strong vulnerability and increases the business risk. Commercial flows

and foreign direct investments exert a positive and intensive contribution to the economic development of the countries due to their higher level of stability. By contrast, foreign portfolio investments present an important degree of volatility, and this represents the major reason for which the worldwide economies do not achieve sustainable and solid economic growth based on the dynamics of these foreign flows.

The subprime economic crisis of the US of 2007 emphasized that globalization can be sometimes considered an important transmission channel of the financial imbalances and turbulence. The intensive interdependencies among the developed and emerging economies stimulated the expansion of the worldwide economic instability through a contagion and domino effect. During the current period of time, important researchers and economists highlighted that globalization is not always a blessing for the global market, determining not only positive impacts in their economies.

The aim of this paper is to analyze the impact of the globalization process in the Central and Eastern European countries during the previous and current crises. The paper is structured into the following sections: the second section of the article will be focused on the main channels through which globalization determines significant changes in the CEECs, concentrating on the dynamic of trade, GDP per capita and foreign investments during the past and current economic turbulence. The econometric analysis will highlight the effects of the globalization process on the macroeconomic indicators of the selected economies during the current economic environment characterized by a strong volatility due to contagion.

## **1. THE IMPACT OF THE GLOBALIZATION IN CEECS THROUGH MAIN CHANNELS**

Globalization is a worldwide reality that all the economies, including the ones in Central and Eastern Europe are dealing with, stimulating the increase of the interdependencies between these countries. Despite the increasing number of studies on this topic, the globalization process remains a controversial concept whose appearance is caused by the development of commercial exchanges. Used for the first time by Theodore Levitt (1984) in his paper “Globalization of markets”, he appreciated that this process is reflecting the expansion of international transactions and foreign financial markets. By contrast, from an economic and financial perspective, Robertson (1992) in “Globalization: Social Theory and Global Culture” is providing one of the most familiar definitions of globalizations as “complex process of multiplication of connections and intercorrelations among the component countries of the world system”.

Globalization has exerted a major impact in all the economic areas, enhancing the interdependencies between worldwide markets and determining various changes in their structure and in the dynamics of the macroeconomic indicators. From this point of view, Sideri (1997, p. 38) considers globalization “a process dominated by economic forces, whose immediate causes are the spatial reorganization of production, foreign trade and financial markets integration”. The externalities of the globalization process are strongly correlated with the key role played by the integration phenomenon and the capital account liberalization.

These intense correlations between these three major processes in the global market emphasize the importance of the foreign flows – commercial and financial (under the form of foreign direct investment) in stimulating the development of both beneficiary and source country. In this context, the macroeconomic policies carried out by the CEECs aim to increase the expansion of the international production, by eliminating the commercial barriers, to stimulate the human capital and FDI mobility.

From the financial market perspective, George Soros (2002) appreciates globalization as the “free movement of capital along with the increased domination of global financial markets and multinational corporations on the national companies”, accentuating its necessity in the global economy. Under the impact of the globalization, the competition between national economy is stimulated and is also simplified the best allocation of the financial resources, creating the appropriate environment for an open economy.

FDI is appreciated as one of the most important channels through which financial globalization benefits the economy (Prasad, et. al., 2003), mainly because they are less volatile than other types of capital flows, making the beneficiary countries less vulnerable to sudden stops and reversal of flows. The theoretical and empirical literature on the topic allowed us to emphasize the most important channels through which economic and financial globalization can influence the economies, as they are presented in the figure below.

**Figure 1. Main transmission channels for economic and financial globalization**

Economic globalization	Financial globalization
<ul style="list-style-type: none"> <li>- international trade</li> <li>- foreign investment flows</li> <li>- human capital mobility</li> <li>- production internationalization</li> <li>- markets integration in the global economy</li> </ul>	<ul style="list-style-type: none"> <li>- financial markets development</li> <li>- technological progress</li> <li>- financial innovation</li> <li>- deregulation</li> </ul>

*Source:* made by author based on Robertson (1992), Soros (2002), Prasad (2003)

CEECs have suffered significant changes and transformations during the transition period from a centrally planned economy to a market one. In this framework, globalization has stimulated the attraction of commercial flows in these countries, having a favorable contribution in achieving a higher rate of economic growth. On the other side, along with the integration process and the increasing level of openness of these economies, the mobility of human and capital flows recorded significant increases. Globalization has positive effects in the affected economies, as Stiglitz (2003, p.5) emphasized “globalization itself is not good or bad. It can do much good, but for the countries which have accepted globalization in their own conditions, in their own rhythm, it can be extremely useful [...]. In many parts of the world it has not brought about significant advantages. For many, globalization seems like an actual disaster.”

The selected countries have made major efforts to catch-up the developed economies or to obtain superior economic growth rates and favorable values for the macroeconomic indicators. During the last two decades their role in the worldwide economy has known a sharp increase, because these countries offer investors and other developed economies positive perspectives to expand their activities and to achieve economic growth.

The current economic and financial crisis of 2008 has highlighted that globalization, despite all the positive externalities generated in the global economies, also eases the transmission of the turbulence and global imbalances at a global scale through the contagion effect. These have lead to an increase of uncertainty on the economic and financial markets and determined investors to leave foreign markets due to the higher risk their businesses infer.

The relationship between globalization, trade and foreign capital flows was intensively debated in the theoretical and empirical literature, both before and during the current economic crisis, using various econometric techniques. Their results highlighted the existence of a correlation between the variables selected and, on the other hand, showed the negative role globalization played in

expanding the economic instability in the worldwide market. The countries affected by the transformation of their economy and their structures under integration and economic globalization are expected to benefit from the new opportunities which appear. They will have to carry out developing policies and appropriate structures trade and growth – oriented, policies regarding the investment process and exchange rates to increase the degree of openness of the economy and competitiveness under a more sound and sustainable macroeconomic environment (Qureshi, 1996).

The transition period from the centrally planned economy to a market one was eased by the key role FDI played in the Central and Eastern European countries. These economies become attractive to investors, stimulated by the policy maker decisions in their way to the EU market and by their location advantages. The higher flows attracted by the CEECs encouraged and sustained them to achieve higher rates of economic growth.

CEECs have focused their attention for a long period of time on trying to attract an increased volume of FDI, due to the positive externalities these foreign capital inflows generate in the national economy: they bring a developed package of management skills, know – how and technology, tangible and intangible assets. However, these types of foreign capital inflows determine favorable impact in the beneficiary economy, being more stable during the economic shocks and major imbalances than other types of foreign capital flows.

Since the beginning of the 90s, many important researchers and economists carried out their analysis to emphasize the main reasons why foreign investors have chosen to place their capitals into a CEE country (Resmini, 2000; Bačić, et. al. 2004).

The last 15 years emphasize spectacular changes in the economy of Central and Eastern European countries who witnessed a strong increase of the FDI volume which entered their economies, transforming them into important recipients of substantial net capital flows, recording high levels of human capital and growth rates. Presuming that external liabilities accumulation encourages the growth convergence process and a fast – growing country able to exploit the opportunities provided through globalization and capital account liberalization, Lane and Milesi - Ferretti (2007) examined the dynamics of external position in the CEEC over the last decade, providing evidence of the international balance sheet. Their findings highlight that FDI are mainly prominent in financing the external current account imbalances in the CEECs. As a major component of these external liabilities, FDI have an increased attractive risk-sharing properties, influencing the performance of the domestic investment. On the other side, FDI are an important vehicle for technology transfer, the volume of the FDI attracted may stimulate productivity and income growth in the CEECs.

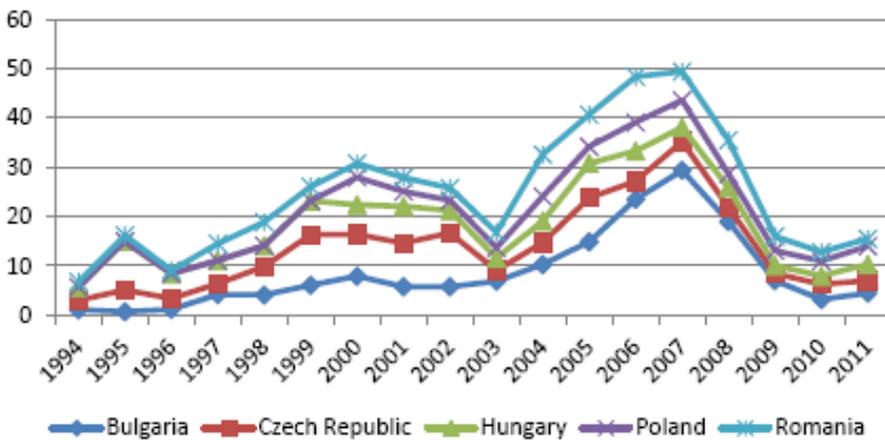
The importance of the FDI flows being widely recognized both in the recipient and the source country, most of the theoretical and empirical studies

use as explanatory variables the most important economic determinants of the foreign capital flows: market size – proxy GDP, population, distance, volume of trade (Krugell, Naude, 2007; Maniam, 2007); meanwhile, in another analysis, labor costs, labor skills, openness risk, macroeconomic and political stability were considered as determinants of the foreign capital inflows.

CEECs have reached high levels of integration, their economies being characterized by significant inflows of FDI, especially in the period before the current economic crisis. Net private – capital inflows have reached almost 11 % of the GDP of the whole Central, Eastern and South-Eastern Europe by 2007. The inflows to this region have known a significant increase during the past three decades. The most important consequence of the integration process in CESEE countries was represented by a sharp increase in the degree of financial and trade integration in the EU, providing the appropriate environment for catching-up the Western economies, under the influence of sound and stable macroeconomic policies.

The expansion of the financial globalization and trade liberalization exerted a positive impact on the dynamics of global capital flows in the 90s, recording significant high levels, reaching the peak in 2007. Amongst the emerging and developing economies, Central and Eastern European countries attracted the most important volume of FDI, stimulated especially by the transformation of these countries into market economies. Their steps of integration and convergence into the EU market were accompanied with an increasing level of capital account liberalization and other international economic organizations like OECD, encouraging on the other side the level of attractiveness to foreign capital inflows (Globan, 2012).

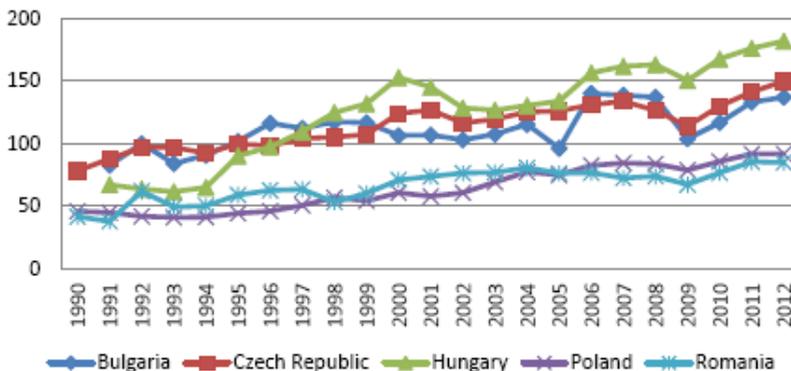
By contrast to other emerging market economies, Central and Eastern European countries have experienced positive evolutions and recorded significant successes in attracting the FDI inflows. The current economic and financial crisis confirmed the fears which existed in the global market about the importance and the sustainability of these massive inflows in CEECs. The break of 2007 vulnerabilities and imbalances in the worldwide economy was reflected in the sharp decrease of the FDI inflows in the region on the side of financing the current account and determined the CEECs to gain access to the IMF credit facilities (except for Poland) (Jimborean, Kelber, 2011).

**Figure 2. Dynamics of inward FDI (% of GDP) in CEECs during 1994 – 2011**

*Source:* made by author based on data from World Bank Database (<http://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD/countries/1W?display=graph>)

During the 2007 crisis, many specialists have highlighted the dependency of the CEECs of capital inflows and determined unsustainable macroeconomic and financial imbalances and vulnerabilities. The worldwide economic recession, as a primary consequence of the economic and financial crisis, generated a brutal collapse of FDI inflows in the region, causing a strong shock in these economies.

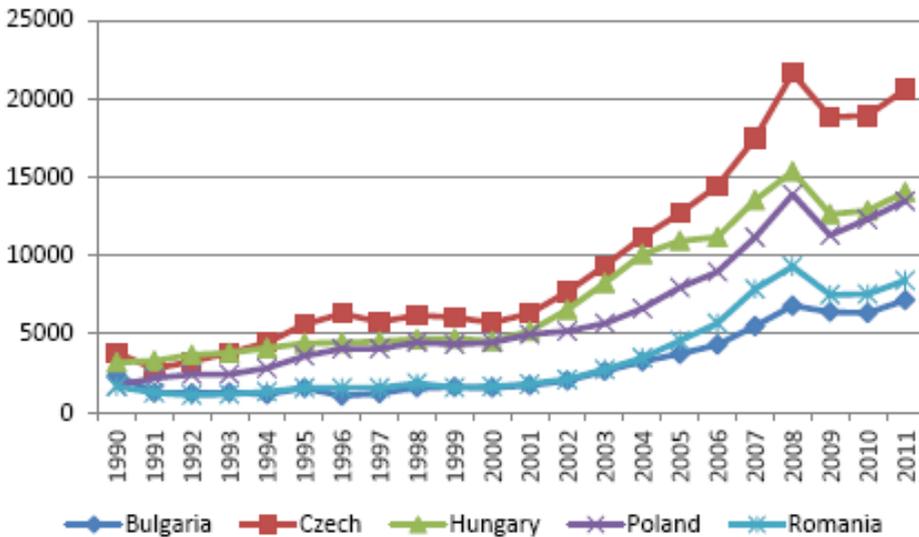
Positive externalities of the globalization process in the national economies were achieved through the transfer of trade flows and FDI, important studies showing the key role that the degree of trade openness has had in establishing a strong and direct correlation with inward FDI (Skabic, Orlic, 2007).

**Figure 3. Trade evolution in CEECs during the period 1990 – 2012**

*Source:* made by author based on UNECE Database (<http://w3.unece.org/pxweb/dialog/Saveshow.asp?lang=1>)

The main objective of the policy makers in the selected countries is to obtain higher rates of economic growth, by implementing sound and sustainable policies and strategies to encourage their development. The dynamics of the GDP per capita in CEECs can be analyzed for different periods of time: during the transition process, before and after the EU integration and during the current economic and financial crisis.

**Figure 4. GDP per capita dynamic in CEECs during the period 1990 – 2011**



Source: made by author. based on UNECE Database  
(<http://w3.unece.org/pxweb/dialog/Saveshw.asp>)

The graphic presenting the evolution of the GDP per capita in CEECs emphasizes, on the one hand, a positive evolution during the transition period and, on the other hand, the period before having access to the EU market due to the progress made by the countries in improving their internal business and political environment. The increased volatility of the global economic and financial markets determined a strong raise of the risk assumed by investors, most of them gave up their expansion plans and caused a negative evolution on the dynamics of the GDP per capita.

## 2. DATA AND METHODOLOGY

The paper aims to emphasize the existence or absence of any direct/indirect causal relationship between the selected variables, using data for

Romania and Bulgaria, over the period 1990 – 2011. We have chosen these two countries for two main reasons: first, during the past two decades, they have been part of the same transition process and were affected by major transformations under the impact of macroeconomic policies adopted by the policy makers and second, because they reached the EU global market at the same time.

The period selected is justified by the availability of the data on the World Bank Database Indicators. The first step of the analysis involves the determination of the integration level for each indicators and then we will focus on emphasizing the types of relationship between them for each country using Granger causality test. The variables included in the analysis carried out are: inward FDI (% of GDP), GDP per capita, trade openness and KOF index.

### 3. RESULTS AND DISCUSSION

To determine the Granger causality relationship between the selected indicators, on the short run, first we implement the Augmented Dickey – Fuller (ADF) test, which will highlight the level of integration. The results showed us that the variables are integrated at first level, therefore in the table below there are provided the corresponding values both for Romania and Bulgaria:

**Table 1. Augmented Dickey - Fuller results**

	Bulgaria	Romania
Indicator	First/ second difference	First/ second difference
fdi	-5.623786	-7.948544
gdp	-3.843572	-3.183987
kof	-7.820199	-5.006388
trade	-5.315610	-5.021451

Note: significant at first difference at a 5 % level

Secondly, we proceeded in our analysis in transforming them into stationary and then carried out the Granger causality to establish which type of correlation exists between the variables or if there is any.

**Table 2. Granger causality results for Romania**

Null hypothesis	F-statistic	Prob.
LN_FDI does not Granger Cause LN_GDP	0.93219	0.4168
LN_GDP does not Granger Cause LN_FDI	0.62212	0.0510
LN_KOF does not Granger Cause LN_GDP	3.21844	0.0760
LN_GDP does not Granger Cause LN_KOF	0.10425	0.9018

LN_TRADE does not Granger Cause LN_GDP	0.38719 2.64244	0.6860 0.1063
LN_GDP does not Granger Cause LN_TRADE		
LN_KOF does not Granger Cause LN_FDI	0.68344	0.5235
LN_FDI does not Granger Cause LN_KOF	0.68094	0.5247
LN_TRADE does not Granger Cause LN_FDI	1.32030 7.47591	0.2983 0.0062
LN_FDI does not Granger Cause LN_TRADE		
LN_TRADE does not Granger Cause LN_KOF	0.47393 0.17901	0.6337 0.8383
LN_KOF does not Granger Cause LN_TRADE		

Note: significant at first difference at a 5 % level

For Romania, the Granger causality analysis has revealed a strong and positive correlation between inward FDI and trade openness at a 5 % level, confirming the theoretical literature which highlights the existence of direct and significant relationship. On the other hand, the probabilities associated to the test of the null hypothesis have also demonstrated, for a 10 % level of significance, the possibility to reject it, and showed the existence of an intensive connection running from globalization index to the GDP per capita and from GDP per capita to inward FDI.

The results obtained implementing the Granger causality test have emphasized the strong interdependencies which exist between globalization, foreign direct investments and GDP per capita. As the relevant literature suggested, the economic and financial globalization impact is reflected into an increase of the development degree of Romania, measured by the value of the GDP per capita. A positive evolution of the GDP per capita, especially in the period before the EU accession stimulates the macroeconomic and business environment, creating the appropriate conditions for multinationals to expand their activities. Foreign investors decision to implement their business in a foreign country has its correspondence into an ascending dynamics of the inward FDI.

However, the analysis was not able to highlight any direct connection between, on the one hand, trade and globalization index, and on the other hand, inward FDI and globalization index.

In the case of Bulgaria, the results provided in table 3 have shown the presence, at a 10 % level of significance, of a bidirectional correlation between trade and inward FDI. A unidirectional causality was found regarding inward FDI and GDP per capita in Bulgaria, emphasizing the strong and positive

influence that the volume of FDI attracted by Bulgaria have on the value of the national GDP per capita.

**Table 3. Granger causality analysis for Bulgaria**

Null hypothesis	F-statistic	Prob.
LN_FDI does not Granger Cause LN_GDP	14.1505 0.40941	0.0004 0.6717
LN_GDP does not Granger Cause LN_FDI		
LN_KOF does not Granger Cause LN_GDP	0.13721 0.36137	0.8733 0.7047
LN_GDP does not Granger Cause LN_KOF		
LN_TRADE does not Granger Cause LN_GDP	0.79477 0.93711	0.4725 0.4167
LN_GDP does not Granger Cause LN_TRADE		
LN_KOF does not Granger Cause LN_FDI	0.66239 1.66270	0.5350 0.2339
LN_FDI does not Granger Cause LN_KOF		
LN_TRADE does not Granger Cause LN_FDI	2.89523 3.61901	0.0912 0.0563
LN_FDI does not Granger Cause LN_TRADE		
LN_TRADE does not Granger Cause LN_KOF	1.81555 0.28108	0.2083 0.7602
LN_KOF does not Granger Cause LN_TRADE		

Note: significant at first difference at a 5 % level

By contrast to Romania, the globalization process does not have any impact on the dynamics of the inward foreign direct investments and has no influence on the trade openness in this country.

## CONCLUSIONS

Past theoretical and empirical literature has proven the existence of a strong impact of the globalization process in the worldwide economy. The major influence it has on the dynamics of each national economy is exerted through important channels like inward FDI, trade openness, human capital mobility and

financial markets integration. On the other side, the concept of financial globalization determines changes in the national markets through innovation, new products and services and deregulation.

The Central and Eastern countries have passed through a transition phenomenon from a centrally planned economy to a market one, involving at the same time major changes in their internal structure. Most of these countries have faced for a long period of time problems caused by the lack of transparency in the business environment, the high degree of corruption and the unstable macroeconomic policies.

The economic and financial globalization, along with the transition process, has led to a strong increase of attractiveness for foreign investors and the record of an ascending evolution the inward FDI. CEECs have become in a short period of time one of the main destinations of foreign investments. The sound and stable macroeconomic policies implemented by CEECs have increased their development, reflected into a positive evolution of the GDP per capita and trade openness.

The Granger causality implemented for Romania and Bulgaria aimed to emphasize the unidirectional or bidirectional relationship between the variables selected. A comparative analysis between the results obtained highlights the impact of the globalization process on the dynamics of the GDP per capita, meanwhile in Bulgaria the globalization index does not have any influence.

During the current economic and financial crisis, although CEECs maintained their position regarding their attractiveness degree, both inward FDI and GDP per capita were strongly affected by the economic recession. The globalization process eased the transmission of imbalances and turbulence into the global market and exerted a negative influence on the dynamics of macroeconomic indicators. However, the foreign capital inflows were more stable during the crisis and less volatile than other types of capital flows.

Further analysis will be expanded by carrying out a panel analysis including all the countries which have gone through the transition period or making a comparative study between developed and emerging economies, highlighting the factors which have had an important role in their growth.

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# THE IMPACT OF THE DEMOGRAPHIC ASPECTS ON THE ROMANIAN SOCIO-ECONOMIC ENVIRONMENT

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**Abstract:** *The aim of the paper is to determine the way in which the global phenomenon of aging population is influencing Romanian demographic structure and the impact of this fact on socio-economic aspects of the country. In order to reach this purpose, we have firstly made a brief presentation of the EU's situation regarding the aging population, with a particular focus on the Eastern Europe, and then we have analyzed and interpreted information included in several statistical reports, data-bases and year-books. The results indicate that Romania is facing a decreasing fertility rate and an increasing life expectancy, which induce an aging population trend, with three major consequences: decreasing economic growth, maintaining Romania's dependence on foreign capitals and increasing the pressure on state budget, on long term.*

**Keywords:** aging population, fertility rate, life expectancy, population structure, economic growth.

## INTRODUCTION

Aging population is a global phenomenon that has been affecting almost all the countries during the last decades. The global birth rate reduction and the constant increase in the number of the elderly generate a change of the balance between generations. During the last century, the share of elderly in the total population structure has been constantly increasing; this trend has also been maintained during the XXI<sup>st</sup> century. It is considered that the birth rate is unlikely to return to the values that it had in the period after the Second World War, which suggests that the process of aging population is an irreversible one and the share of the young population will decrease.

The social progress achieved in various fields such as medicine, quality of life, social protection, the decreasing mortality especially in the older people and the increasing average of the lifetime have significantly influenced the process of aging population. Meanwhile, the changing mentality of the population, the insertion of women in the labour market and the increasing role of education has determined a significant decrease in the birth rate.

The phenomenon of aging population is one of the major issues currently facing Japan, Russia, USA and EU countries. The population of the European Union

countries are currently suffering a second major trend: the emergence of a new group - the "fourth age" ("the oldest of the elders", of over 80 years), which represents a high and growing proportion. The structural weaknesses in the labour market generate low productivity, feeble employment rate and poor economic growth in the EU. It was found that the two phenomena - decreasing number of the population and the aging trend - have three major economic impacts: a decrease in the economic growth, maintaining the dependence on foreign capitals and increasing the pressure on the state budget, on the long term.

Considering all these aspects, in the present paper we will firstly make a brief presentation of the EU's situation regarding the aging population, with a particular focus on the Eastern Europe, and then we will analyse, based on the statistical information, the demographic structure of the Romanian population and its consequences on the social and economic environment of the country.

## **1. AGING POPULATION IN THE EASTERN EUROPE**

In Europe, the phenomenon of aging population was firstly felt in the Western part. However, the demographic evolutions from the 1990s and 2000s, among which we can mention the significant decrease in the fertility rate, the emigration of many active people and the continuous rise in the life expectancy, allow us to estimate that, very soon, the Eastern Europe will catch up the demographic aging situation of the Western Europe. In this context, a study conducted by Chawla, Betcherman and Banerji (2010) underlines that the countries from Eastern Europe are experiencing a third transition, which overlaps on their recent political and economic transitions.

The statistics show that, in Europe, the percentage of population of 60 years or older was about 21.8% in 2010 and the estimations made by United Nations (2011) indicate that in 2020 this proportion will rise up to 25.4 (see Table 1). Moreover, Chawla, Betcherman and Banerji (2010) assume that, by 2025, the average age will be with 10 years greater than it was in 2010 in about half of the Eastern European countries.

In table no. 1 it could be seen that the percentage of those of 60 years and more, as well as the proportion of the people of 80 and older, had an ascending trend between 1975 and 2010, both in Western and in Eastern Europe.

**Table 1: Aging population in Europe\***

Region/ Country	Proportion of population of 60 and more					Proportion of population of 80 and more			
	1975	1995	2005	2010	2020 - estimated	1975	1995	2005	2010
<b>Europe</b>	<b>16.5</b>	<b>19</b>	<b>20.6</b>	<b>21.8</b>	<b>25.4</b>	<b>1.8</b>	<b>3.2</b>	<b>3.5</b>	<b>4.2</b>
<b>Western Europe</b>	19.1	20.2	22.6	24.2	28	2.2	3.9	4.3	5
<b>Eastern Europe</b>	14.5	17.2	18.2	19.1	23.2	1.3	2.4	2.4	3.1
<b>Belarus</b>	14.2	17.8	18.2	18.5	22	1.8	2.4	2.4	3.1
<b>Bulgaria</b>	16.1	21.4	22.4	24.4	26.8	1.4	2.6	3.2	3.8
<b>Hungary</b>	18.3	19.4	20.8	22.5	25.6	1.7	2.9	3.4	3.9
<b>Republic of Moldova</b>	10.8	13.1	15	16	21	1	1.3	1.8	2.2
<b>Romania</b>	14.3	17.5	19.3	20.3	23.7	1.2	2.1	2.4	3.1
<b>Ukraine</b>	15.8	18.4	20.9	20.7	26.8	1.6	2.6	2.6	3.4

\* Selection of regions and countries

Source: Adapted from *United Nations, Department of Economic and Social Affairs, Population Division, World Population Prospects: The 2010 Revision, New York, 2011*, <http://data.un.org/Data.aspx?d=PopDiv&f=variableID%3A33>

From the table no. 1 it results that, between 1975 and 2010, the Eastern European countries that have registered a proportion of population of 60 years and older superior to the average percentage of the region are: Bulgaria, Romania and Ukraine.

Analysing the factors that have been influencing this demographic trend in the Eastern Europe, some studies have demonstrated that the declining fertility rates plays a great role in causing aging population in the region (Gavrilov and Heuveline, 2003; Kinsella and Velkoff, 2001). There were two significant periods when it was registered a diminishing fertility rate in Eastern Europe: after the peak of the high post-war fertility and in the 1990s, during the economic transition period of these countries.

The rate of aging population was also affected by the emigration of the Eastern European working-age adults. As it can be seen from various studies, the emigration of young people has significantly accelerated the population aging phenomenon in countries such as Bulgaria, Republic of Moldova, Romania and Ukraine (Hristov, 2004; Kaczmarczyk and Okolski, 2005). Actually, it was noticed that Bulgaria, Romania and Ukraine are in a “double jeopardy” for rapid population aging

(Gavrilova and Gavrilov, 2009), because of the negative net migration and of the negative natural increase, caused by low fertility.

According to the National Statistical Institute of Bulgaria (2012), in 2011 the net migration rate was of -2.84 migrants/1000 people, the emigration phenomenon partly explaining why the population of this country has decreased between 2000 and 2011 with more than 700000 people. Meanwhile, at the census conducted in 2012 it was found that the fertility rate was decreasing, while the average life expectancy at birth was on a positive trend, from about 71 years old in 2000 to almost 74 years in 2012 (National Statistical Institute of Bulgaria, 2012).

Analysing the information offered by the State Statistics Service of Ukraine (2012), we find a similar situation: while the fertility rate has decreased from 1.37% in 2004 to 1.29% in 2012, the life expectancy had a positive evolution during the last 12 years: from almost 66 years in 2000 to almost 69 years in 2012. Due to the decrease of the fertility rate and to the emigration (in 2012 there was a net migration rate of -0.08 migrants/1,000 population), the number of the Ukraine's population has been significantly diminishing between 2000 and 2012, with 4298970 people.

The Romania's situation of aging population will be largely debated in the next two sections where, apart from the statistical evidences, there will be presented the factors that have generated this phenomenon and also its socio-economic consequences.

## **2. AGING POPULATION IN ROMANIA – STATISTICAL EVIDENCES**

Romania is one of the countries affected by the aging population problem, the statistics showing that if in 1990 there were 0.4 retirees per each worker, the ratio has reversed since 1998 and currently there are 1.2 retirees per employee. This phenomenon could be explained through the decrease in the fertility rate combined with an augmentation of the life expectancy.

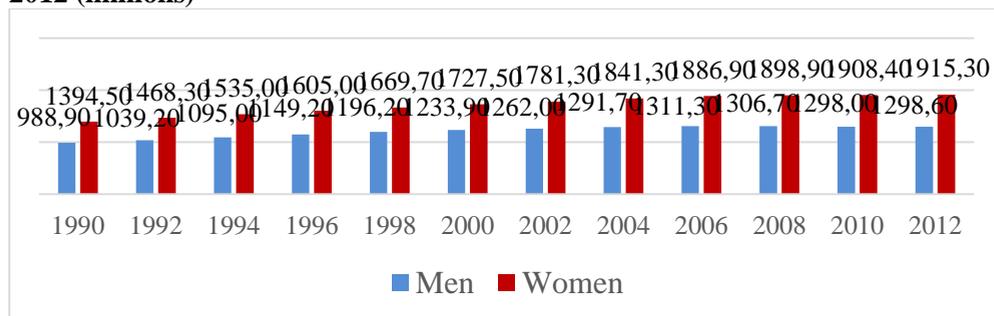
The last 22 years have been characterized by a continuing decrease in the number of the population, with almost 1.9 million people. On one side, the changes in the demographic behaviour of the families and external migration have generated a constant decline in the Romanian population. However, on the other side, this downward trend was also caused by industrialization, by urbanization and modernization from the last century, which have radically changed the values' scale. To all this, another recent phenomenon that should be considered is the economic and financial crisis that started in late 2007, which has considerably reduced the revenues and has diminished the fertility rate. The decreasing fertility rate, together with the total number of the population, starting with 1990, could be seen in Table no. 2.

**Table 2: Total population and fertility rate between 1990 and 2012**

Year	Population (in thousands )	Fertility rate
1990	23 207	1,84
1992	22 789	1,5
1994	22 731	1,41
1996	22 608	1,3
1998	22 503	1,32
2000	22 435	1,31
2002	21 803	1,26
2004	21 673	1,3
2006	21 588	1,31
2008	21 513	1,35
2010	21 432	1,3
2012	19 042	1,36

Source: *Population and households' census in Romania*, 2011, [http://www.recensamantromania.ro/wpcontent/uploads/2012/02/Comunicat\\_DATE\\_PROVIZORII\\_RPL\\_2011.pdf](http://www.recensamantromania.ro/wpcontent/uploads/2012/02/Comunicat_DATE_PROVIZORII_RPL_2011.pdf)

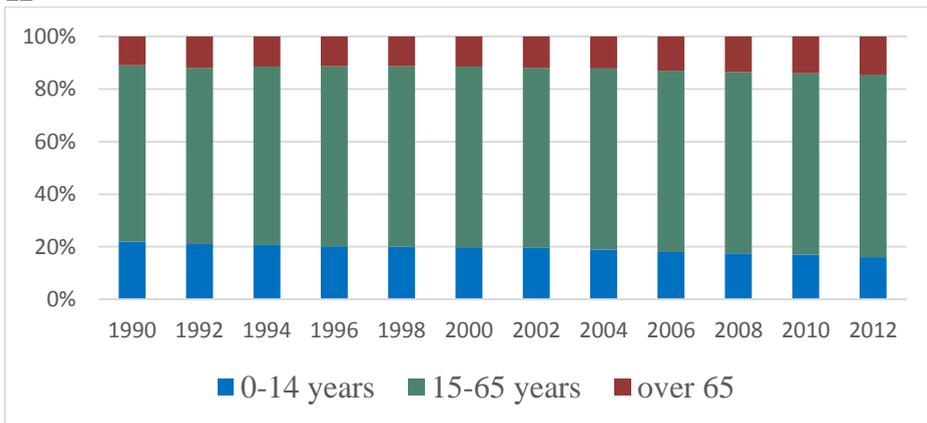
Together with the decreasing number of the population it was observed an increase in the average life expectancy, from 70 years in 1990 to 75 years in 2011, fact that led to the consolidation of the share of population over 65 years in the total population. The evolution of the number of those over 65 years old, between 1990 and 2012, can be seen in the Figure no. 1.

**Figure 1: The elder population (65 years and more), by gender, in 1990 - 2012 (millions)**

Source: *The structure of the Romanian population on gender*, 2012, National Statistics Institute, <http://www.insse.ro/cms/rw/pages/calendar/publicatii/decembrie.ro.do>

In the absence of an improvement in the birth rate, in 2030 one out of five Romanians might be over 65 years old and in 2060 the ratio may reach up to one to three. Therefore, the economic and social burden on the young persons will rise accordingly. The population structure on age categories, during the same period, is reflected in the figure no. 2.

**Figure 2: Population structure on age categories, in Romania, between 1990 and 2012**



Source: *The structure of the Romanian population on the age categories, 2012*, National Statistics Institute, <http://www.insse.ro/cms/rw/pages/calendar/publicatii/decembrie.ro.do>

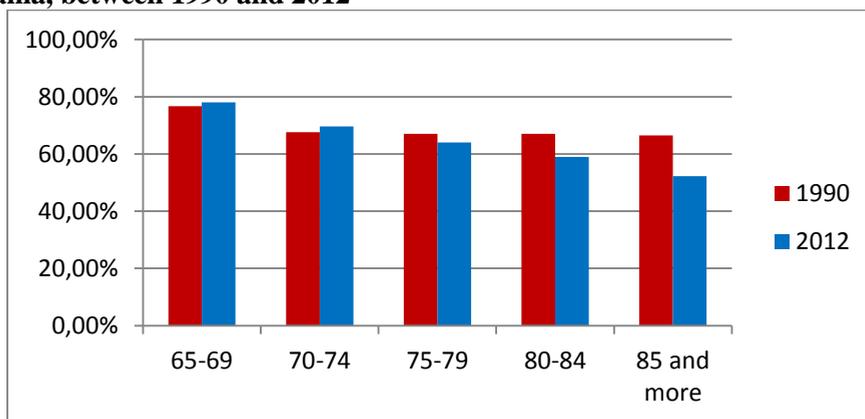
Consequently, there are two phenomena that together amplify the aging population trend: *the reduction of young people*, aged between 0 and 14 years, from 23.7% (in 1990) to 15.0% (in 2012) and *the increasing share of the elderly*, 65 years and older, from 10.3% (in 1990) to 15.0% (in 2012). The adult population, 15-64 years, has steadily increased from 66% (in 1990) to 70% (in 2012).

The senior population cannot be regarded as a homogeneous entity, because it includes three subgroups: the "younger" elders (65-74 years), the "older" elders' (75-84 years) and the long-life-standing persons (85 years and more). During the last years, it could be noticed a higher increase in the number of the "older" elders compared to the subgroup of "younger" elders. Out of 1185800 people that represents the number with which has increased the senior population between 1990 and 2012, 60.4% belongs to the age group of 75 years and older. In 2012, the "long-life-standing" persons, the segment of the population of 85 years and over, represented 8% of the population of 65 years and more, compared with 1990, when they totalled 5.1%.

An important aspect of the aging process consists in increasing the number of the women inside the elderly population, known as a process of "feminization of

aging" (see Figure 3). Women are more life-long-standing, their number being almost twice higher than of the men. The elders' population structure highlights this disproportion: in 2012, for 1000 women of 65 years and older there were 674 elderly men. According to the statistics, in 2030, women will live in retirement for 22 years and men for 17 years, and the gradual increase in the living standards during the active life will determine the retired people to be less willing to accept a change in the living standard after 65 years, caused by the decreasing revenues.

**Figure 3: The masculinity ratio of the elders, on age categories, in Romania, between 1990 and 2012**



Source: Romania's Statistic Yearbook, 1990-2012, National Statistics Institute, <http://www.insse.ro/cms/rw/pages/calendar/publicatii/februarie.ro.do>

During the period 1990-2012, the average age has increased significantly, from 33 years to 40 years, reflecting the demographic aging process. Increasing average age was more pronounced in the case of the women (41.5 years) than in the case of men (38.5 years).

Moreover, the demographic phenomenon of aging population is more pronounced in rural areas than in urban ones. Thus, in the early 1990, the share of population of 65 years and over, from the rural areas, was 13.5% of the total population and it has increased in 2012, up to 18.3%.

On 1<sup>st</sup> January 2012, the rural population had an average age with 1.2 years higher than in urban areas, mainly due to rural female population (41.7 years). In urban areas, the average age of the female population is with 2.7 years older than the male population and in rural areas with 3.3 years.

In terms of the population's distribution by county, in 2012 Vaslui was "youngest" county, with a 0-14 years population's share of 18.4%, followed by Suceava (18.0%) and at the opposite pole being situated Braila, Cluj, Olt, Hunedoara, Teleorman and Bucharest, with ratios of less than 14%. Buzau, Giurgiu and

Teleorman recorded a high percentage of elderly population (over 18.0%), while in the counties of Constanta, Iasi and Satu Mare the ratios were below 13%. Compared to the 1990's, the share of population of 65 years and over increased in all counties. The regions of South-Muntenia and South-West Oltenia had the most "aged" persons, the share of the elderly population being of 16.8% and, respectively, 16.5%.

### **3. SOCIO-ECONOMIC CONSEQUENCES OF THE AGING POPULATION IN ROMANIA**

It is known the fact that the economic prosperity crucially depends on the size and quality of the workforce. As people pass through 50 years old and beyond, their likelihood of participating in the labour market tends to decrease. The stock of assets could also decrease as the elders increasingly rely on their savings to finance their spending. The combination of possible labour market tightening and dissaving raises concerns that the aging population will determine slower economic growth (Boersch-Supan and Ludwig, 2009). Keeping all other factors such as productivity and migration constant, this would determine a lower growth in income per capita. This scenario has largely been debated, a more alarmist view coming from Peter Peterson, who argued that "global aging could trigger a crisis that engulfs the world economy [and] may even threaten democracy itself" (Peterson, 1999).

Romania, especially during the last years, faced a reduction of the potential GDP, determined by the diminishing contribution of the labour force and capital, while the internal saving was decreasing: Romania's potential GDP declined from 5% in 2004 to 1.3 % in 2013, due to the contraction of private investments.

The aging process and the reduced number of inhabitants overlap the structural problems from the Romania's labour market: an excessive employment in agriculture while in the service sector it is still low. 29% of Romania's workforce is involved in agriculture, compared to 3.4% in the Eurozone. The service sector represents 42% of the workforce employed in Romania, compared to 72% in the Eurozone. The more pronounced is the aging phenomenon in agriculture, the more worrying are these figures, since in Romania one third of the employed persons in agriculture has more than 55 years old.

Life-cycle models of savings behaviour suggest that an important component in determining the aggregate saving rate is the population's demographic profile, with savings propensities and the overall dependency ratio expected to be negatively correlated (Morrow and Roeger, 2004). Consequently, the savings rate is expected to be high when a large proportion of the population is employed, savings playing an important role in financing post-retirement consumption. Likewise, the savings' rate should be lower when a large percentage of the population is very young or is over the retirement age.

In Romania, it was noticed that aging and reducing population is affecting the domestic savings rate and the investments. Stimulating the household savings is

essential to reduce Romania's dependence on foreign capital flows and to have an internal financing of growth - bank deposits, private pension funds, investments' funds with varying risk degrees, life insurances with an investment component, bonds and capital market.

On social level, Bloom, Canning and Fink (2010) consider that the aging population has a major consequence: it will increase the dependency ratio, meaning that there will be more people claiming benefits such as state pensions and less people working and paying income taxes. This aspect will generate, on its turn, at least two main effects.

First of all, it will increase the government's spending on health care and pensions. Some states were really concerned about this, for example the former U.S. Federal Reserve Chairman, Alan Greenspan, has warned that the aging population in United States "makes [...] social security and Medicare programs unsustainable in the long run" (Greenspan, 2003).

Romania has already started to experience a higher pressure on both components of the state budget (spending, through the increasing expenditures with social security and healthcare, and revenues, by the negative impact on their value). On long term, this could be a serious problem considering the fact that, in Romania, the share of the budgetary revenues in GDP are among the lowest in the EU, representing only 32.9% of GDP in 2011. Increasing the budgetary revenues in GDP should be done by stepping up the fight against tax evasion and not by increasing taxation, which would degrade the business climate.

A second effect of the increase in the dependency ratio is that those in work may have to pay higher taxes, due to the fact that there will be less contributors, which could create disincentives to work and disincentives for firms to invest, affecting again the productivity and growth.

Another socio-economic consequence is mentioned by some analysts, arguing that the aging population might change the sectors within an economy. An increase in the numbers of retired people will create a bigger market for goods and services linked to older people. In Romania, this fact has already started to be seen, especially during the last five years, when there have appeared many goods and services designed for the elder persons (such as senior holiday packages, various types of private pensions etc.).

## CONCLUSIONS

Romania is one of the countries negatively influenced by the aging population, phenomenon which is aggravated by the continuously decrease of the fertility rate. As we have mentioned in the paper, this process is present in almost all the countries (the exceptions being given by the poor ones) and has deep consequences on the social and economic environment. The aging population has a strong impact on the labour market, by diminishing the number of young people, maintaining at high rates

the adult working population and increasing the number of the older people who receive social assistance (the retired ones).

In Romania, the effects of the aging process on the economic and social life are already visible: lower potential GDP, induced by lower contribution of labour and capital in the context of the deterioration of internal savings, and increased pressure on the state budget, by augmenting the social and healthcare spending and reducing the fiscal revenues.

Some of the solutions we consider that could be implemented to counteract the negative consequences of the aging phenomenon are: prolonging the age of retirement or offering additional facilities to those willing to postpone the retirement, ensuring lifelong learning programs at the work place so that the technological advance would not represent a problem for them and a determinant for early retirement, stimulating the fertility rate especially among the educated people (where it was found that it is registering the lowest values) or better promoting the importance of the private social pensions and encouraging persons to opt for them.

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# REGIONAL CONVERGENCE AND AGGLOMERATION IN THE EUROPEAN UNION: A SPATIAL APPROACH

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**Abstract:** *Reducing economic discrepancies among the regions of the European Union is of constant concern for economic debates and analyses. This is the reason why convergence represents a crucial issue of intense research since the early 1990s. Although valuable progress has been achieved with respect to the knowledge on this topic still new aspects emerge. The latest trend in European studies is to examine not only chronologically the process of convergence, but also spatially. This is because spatial statistics and econometrics provide better cross-section comparison among regions. In this context, the purpose of this paper is to extend the investigation of convergence across the EU27 regions during 2000-2010 by taking into account the spatial interaction between regions. To throw empirical light on this issue, factors regarding spatial agglomerations and economic are introduced in our convergence analysis. Finally, we present several attitudes towards a potential process of convergence between EaP countries and EU.*

**Keywords:** convergence, agglomeration, European Union, spatial econometrics, EaP countries

## INTRODUCTION

Economic convergence among the regions of the EU (European Union) has attracted the attention of researchers for a long time and more so in the recent decade following the EU enlargement. Analyses of convergence processes across the EU still represent crucial issues of intense and continuous research. Even though, valuable progress has been made with respect to the knowledge on this broad topic still new and challenging aspects emerge. The development of New Growth Theory (Aghion and Howitt, 1998) and New Economic Geography (Krugman, 1991) reveals significant implications concerning the determinants of the evolution of regional disparities. These two strands of literature stress the importance of spatial interactions that matter considerably for reducing economic discrepancies across regions. Spatial dimensions are increasingly recognized as an essential feature of regional growth with a solid basis in the economic theory. In this sense, spatial econometric methods and techniques enable us to examine the implication of new theoretical approaches in this respect. Spatial

econometrics is a relatively young science, but very important. Its appearance is related to the intensification of national relations between countries on the one hand, and the growing importance of regions, on the other hand. After analyzing various economic issues, scientists noticed that not only time and chronological developments are important for characterizing the growth process but also spatial interrelationships. These kinds of interconnections translate into neighborhood influences (static in terms of space) or interaction (which are dynamic). As a consequence, the degree of correlation between several regions depends, among other factors, on the distances between them. In other words, the geographical location is becoming increasingly important through these specific effects, such as: simple interactions, spillover effects, the effect of imitation and so on. These special types of spatial interactions and neighborhood spillovers are both examples of features of agglomeration that may stimulate economic growth. With this background, our aim is to examine the contribution of agglomeration for reducing economic discrepancies among the regions of the EU. In this sense, we proposed to extend the investigation of convergence across the EU27 regions during 2000-2010 by taking into account the spatial aspects. In our opinion, of most importance for European convergence is to study not only time convergence, but also spatial convergence.

Considering these, the rest of the paper is organized as follows. Section 2 briefly outlines the theoretical background and some selective empirical evidence related to our topic. Section 3 is dedicated to describing the methodology used for our empirical analysis. Also this section offers an overview of the data set. Section 4 presents the results of our spatial econometric analysis. In section 5 we present several attitudes towards a potential process of convergence between EaP countries and the EU. Section 6 concludes.

## 1. THEORETICAL BACKGROUND

In the literature dedicated to the economic field, the concept of convergence (and its antonym divergence) finds frequent use by playing a central role in describing the evolution of different economic entities. The researchers in this subject area use two main concepts of convergence: sigma convergence and beta convergence (Barro and Sala-i-Martin, 1990). The former occurs when differences in per capita incomes (or another phenomenon under analysis) among regions or countries reduce over time, while the latter is related to the correlation between the average increase rate of GDP per capita and its initial level. The convergence theory mentions three types of  $\beta$  convergence:

- *absolute convergence* - assumes that different growth rates are only temporary. It holds only when countries or regions have similar structural features.
- *conditional convergence* – each spatial unity converges towards its own steady state. As a consequence, there are persistent inequalities among countries or

regions and different equilibriums. Structural heterogeneities are partially present and the initial conditions do not matter.

- *club convergence* – derives both from endogenous growth with multiple equilibriums and from neo-classical models.

Regarding the relationship between agglomeration and convergence, in the economic literature there are two conflicting approaches. On the one hand, there is a first approach which sustains that agglomeration does not lead to convergence because agglomeration generates a permanent tension between *efficiency* (high growth) and *equity* (convergence) that make regional inequalities persist. On the other hand, there is another opposing view which predicts that neighboring regions can benefit from agglomeration through interregional spillovers (Bosker, 2007, p. 94). This second view is more related to recent work in the spatial econometric literature (Abreu et al., 2005).

Despite these two contradicting approaches, empirical evidence on the various linkages between agglomeration, neighborhood spillovers and convergence is still scarce. A limited number of studies aimed at investigating the influence of space on growth and regional disparities (Anselin et al., 1997; Funke and Niebuhr, 2005). Moreover, Fingleton (2003) argues that spatial dependence might give rise to regional growth which has to be dealt with by spatial econometric methods.

## 2. METHODOLOGY AND DATA

A new method used to analyze convergence processes is spatial autocorrelation. In simple terms, this technique takes account of spatial dependence which refers to the fact that an observation associated with a location (i) depends on observations at other locations (j):  $y_i = f(y_j)$ ,  $i = 1, \dots, n$  and  $j \neq i$ . This method is generally called LISA (Local Indicators of Spatial Autocorrelation) when it uses the same variable, but in two different moments of time and BiLISA when it uses two distinct variables (Anselin and Florax, 1995).

This technique employs local Moran's I, which can assume values from  $-1$  to  $1$  (Moran, 1950). Positive values indicate the tendency for spatial concentration of units with similar values of the indicators under analysis. On the other hand, negative values mean that units with different indicator values border on one another.

The local Moran's I is tested using the Moran's I statistic. The working hypotheses are:

- the **null**  $H_0$ : absence of spatial autocorrelation (the observed value of one location does not depend on the values of neighbors)
- the **alternative**  $H_1$ : there is concentration of similar values in space.

The Moran's I statistics comes together with the Moran's scatter plot. This has four quadrants, each indicating a type of autocorrelation:

- the **HH** (high - high) quadrant: regions with a high value of the parameters are associated with regions with the same level;
- the **LL** (low - low) quadrant: regions with a low value of the parameters are associated with regions with the same level;
- the **HL** (high - low) quadrant: regions with a high value of the parameters are associated with regions with low levels;
- the **LH** (low - high) quadrant: regions with a low value of the parameters are associated with regions with high levels.

Quadrants HH and LL indicate positive spatial autocorrelation and reveal spatial concentration of similar values. Negative spatial autocorrelation is given by the HL and LH quadrants that show spatial concentration of dissimilar values.

Final results are shown in a cluster map and in a Moran's scatter plot. Cluster map shows the locations with a significant Local Moran LISA statistic based on their type of spatial correlation: red for the high – high correlation, bright blue for the low – low association, light blue for low – high and pink for high – low.

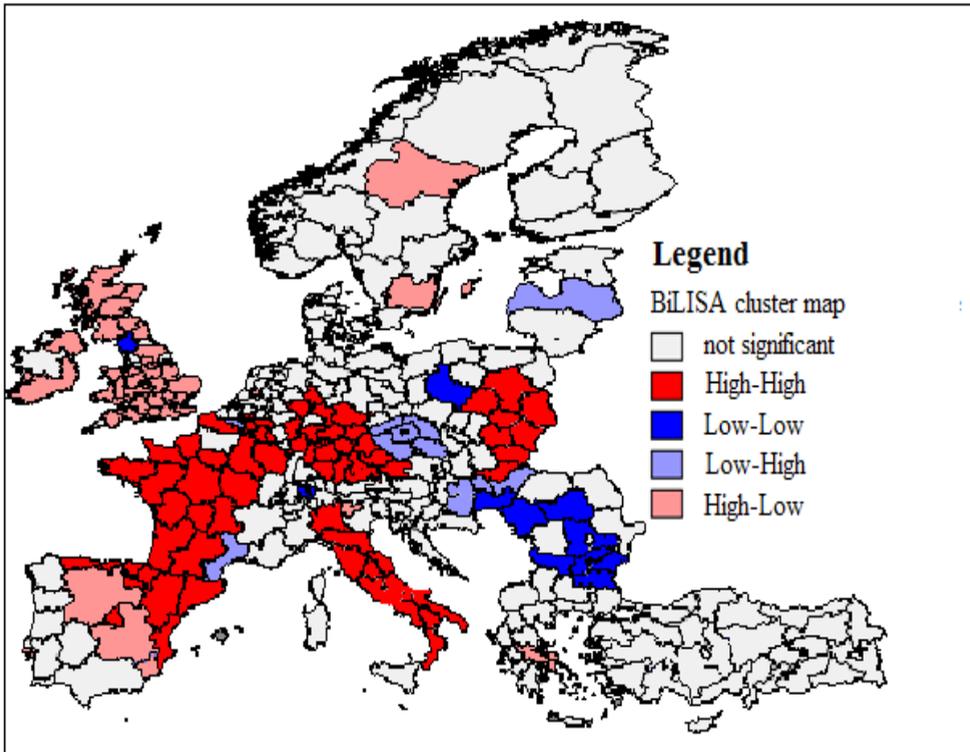
The data set which has been used for our analysis comes from Cambridge Econometrics (CE) European Regional Database and from Eurostat, over the period 2000-2010. The full sample of spatial units considers EU27 regions, meaning a total of 271 NUTS2 level regions. The measures of agglomeration are based on employment data while GDP per capita (expressed in PPS) stands for economic growth.

### 3. RESULTS

In this section we present the results of our analysis which show the spatial autocorrelation between agglomeration measured by employment and economic growth measured by GDP per capita during 2000-2010.

The first figure presents the cluster map where we can observe the levels of spatial autocorrelation of the variables taken under analysis.

**Figure 1. Levels of spatial autocorrelation between GDP/capita and agglomeration in 2000-2010**



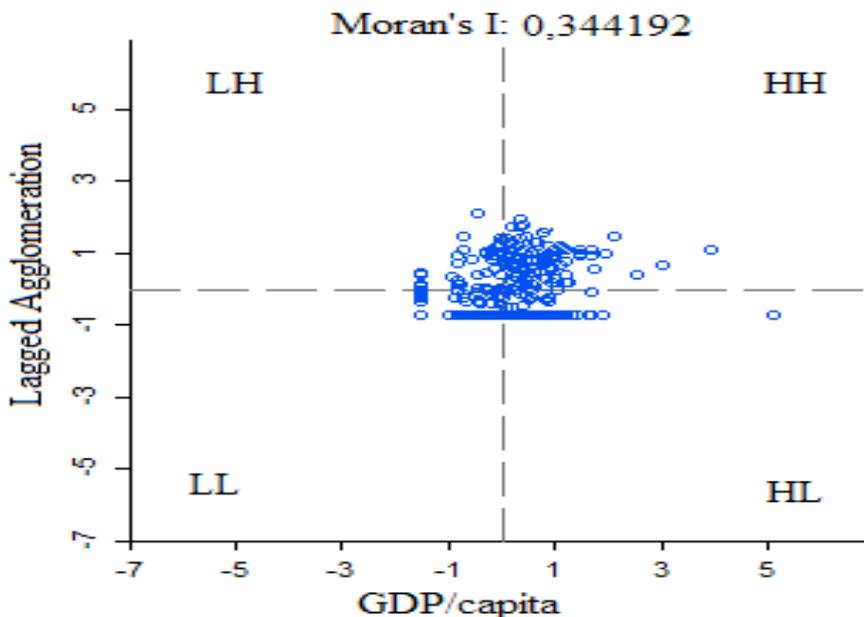
*Source:* own calculations using GeoDa 0.9.5i software, based on Cambridge Econometrics and Eurostat data

As we can see from figure 1, there are different levels of spatial autocorrelations represented by different colours of red and blue with various meanings. Dark red suggests that regions with a high level of GDP/cap are associated with regions characterized by a high degree of labor resources concentration. These particular aspects can be found in regions from France, Italy, Germany and central Poland. By contrast, dark blue suggests that regions with a reduced GDP/capita are associated with regions characterized by a low degree of labor concentration. This situation can be found in regions from Romania, Bulgaria and slightly in Hungary and Poland. In turn, light blue signifies that regions with low GDP/cap are associated with regions that have a high degree of labor resources concentration. This situation characterizes several regions from Hungary, Czech Republic and Latvia. The last color, light red, suggests that regions with high GDP/capita are associated with regions

characterized by a low degree of labor resources concentration. This situation can be found in regions from England, Ireland, East of Spain and Sweden.

All in all, these colors imply that regional differences still exists among the EU27 regions. In order to obtain a more complete perspective, we will have to analyze results presented in the second figure.

**Figure 2. Spatial autocorrelation among PIB/cap and agglomeration in 2000-2010**



*Source:* own calculations using GeoDa 0.9.5i software, based on Cambridge Econometrics and Eurostat data

In the figure 2, we can observe that Moran's I has a value of 0.344192 which shows, on a general level, the existence of positive spatial autocorrelation between GDP/capita and agglomeration (lagged agglomeration stands for spatial interdependence). This positive value corresponds to HH and LL quadrants. Thus, this result shows the predominant trend that characterizes the EU27: on the one hand, regions with a high GDP/cap are associated with regions with a high degree of labor resources agglomeration and on the other hand, regions with low GDP/cap are associated with regions with a reduced of labor resources agglomeration.

Overall, the presented results imply that regional differences still persist among East Europe and West Europe.

#### **4. ATTITUDES TOWARDS THE PROCESS OF CONVERGENCE BETWEEN EAP COUNTRIES AND THE EU**

Although the convergence process is difficult to be obtained across the EU, there is also important to analyze the idea of potential convergence between EaP countries and the EU. From the EU perspective, the central role of the EaP is to promote socio-economic reforms in order to facilitate the convergence process towards the EU. Despite the important achievements that EU has made in implementing a new template for reforms, the EaP seems to have failed in obtaining tangible „reformation” on the ground. Even though, the EaP proposes a concrete framework for closer cooperation between the EU and the Eastern neighbours, a wider European House appear to be a distant nice-sounding perspective.

Overall, there remains a relative major mismatch between EU’s emphasis on convergence in socio-economic aspects and the economic realities that characterizes the EaP countries.

#### **CONCLUSIONS**

In this paper we have attempted to investigate the spatial dependence between agglomeration and regional convergence across the EU, using an alternative method called BiLISa. By making use of this new technique, we discovered some interesting results. Based on a spatial autocorrelation, our study was able to identify that inside the EU there are certain poles of regions characterized by different features. In this sense, we discovered that agglomerations have a positive influence on growth because regions with higher GDP/capita are associated with regions with an increased degree of labor resources and vice versa. Moreover, these results help us in detecting different spatial regimes in Europe that are characterised generally speaking by a separation between West and East. This means that regional discrepancies still exist, at least from a spatial perspective. The same trend seems to characterize the convergence process between EaP countries and the EU.

#### **Acknowledgement:**

This work was supported by by the European Social Fund in Romania, under the responsibility of the Managing Authority for the Sectorial Operational Programme for Human Resources Development 2007-2013 [grant POSDRU/CCP 107 DMI 1.5/S/78342].

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# AFFECTIVE MIGRATION VERSUS ECONOMIC MIGRATION IN ROMANIA

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**Abstract:** *Migrant communities have become a main issue for most studies in this field. Romanian migrants experience the process of transnationalism from an economic and also affective perspective. In the heart of the debate of this paper lie the transnational practices which help or hinder integration processes and economic development of Romanian migrants. The economic aspect of migration is determined by the first stage of the migration process, while the migration affectivity is given mainly by the family presence at the destination. The great challenge in this paper is to analyze the way in which determinants of migration, the effects of the affective and economic migration can pass from affective to economic by developing new forms of transnationalism ("virtual return"). What remains significant for the work is the debate on the usefulness of the transnational research and the proposed perspectives which should be focused on the integration of migrants for the dynamics of the phenomenon.*

**Keywords:** migration, transnational migration, social remittances, economic development, social integration

## INTRODUCTION

This paper debates "the human side" of transnational migration. The question is how can the spaces and relationships between migrants and non-migrants be preserved for a long time? Through this paper, we attempt to draw some conclusions regarding transnational social relationships between a relatively small number of Romanian migrants in Italy and their family members back home. The working hypothesis is that social spaces are reduced more and more to the idea of territorial spaces. This is especially evident when it comes to migration. The data analysis shows that migrants' living spaces cannot be reduced only to social spaces. These spaces involve transnational networks located in a fragmented and plurilocal way, at least as significant for the other migrants who live away from home. For a better illustration of these issues first of all one needs to understand the various forms of transnational communication and interaction between migrants, between migrants and the family left behind, between migrants and their home country. In this case, an essential role is played by social remittances.

Some authors have discussed the phenomenon differently. From an ethnographic perspective, a number of conclusions about transnational social

relationships between a group of Ecuadorian migrants and their families in Ecuador were drawn (Boccagni, 2010a, b). Also, an ethnographic fieldwork, as a preferred option for one who wants to study transnational migration, can be found in the studies relating especially to the transnational family life (Glick-Schiller, 2003, pp. 99-128). For these authors the challenge was to explore the references related to migrants both multi-spatially and multi-relationally, simultaneously two or more important locations being physically and biographically connected by the transnational relationships of the migrants. We will try to highlight the specific consequences of these relationships in this paper. The research unit in this regard is twofold, on the one hand we consider the migrants themselves, and on the other hand we consider the interpersonal social relationships between them and "the others" or "others" left behind at home.

The opinions expressed, as well as the comments on a number of documents in course of work or studies and research conducted by the author in the period 2005-2011 on the subject of international migration in general and on the migration of Romanians in Italy in particular, are solely those of the author. At the end of the paper we offer answers and any other data for future research, generally talking about various ethnographic areas and territorial, affective and social relationships between these spaces.

The aim of the paper is not only that of bringing accurate and precise data about transnational social spaces, but that of bringing to the fore a question of reflexivity on the affective migration. Through this paper we show that transnational migration is predominantly affective, and not economic. Financial motivations can be found in first generation migrants who left Romania in order to earn more money for themselves and their families, but gradually the economic was replaced by the affection to those left behind at home. Since 2000 this emotional aspect is highlighted by the need of families to become reunited at their destination, which is why most of Romanian immigrants in Italy brought some family members or the whole family, with them in Italy. We speak mainly of Italy because most studies to which we refer are made in this country. During the studies conducted in relation to Romanian immigrants, who work or study in Italy, we participated in the social life of these immigrants trying to raise this issue and highlight the relevance of transnational migration located in different social and ethnographic spaces.

The methodology of this paper is given by the research conducted in the doctoral (PhD) thesis held in 2011 and contains a qualitative case study and two quantitative studies conducted in Italy in 2010. We thus have the research results with a sample of over 30 interviews and over 120 questionnaires conducted in groups of subjects according to the research objectives<sup>1</sup>. The case study is published, without

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<sup>1</sup> Petronela Daniela Feraru, PhD thesis *Religie și migrație în România contemporană. Studiu de caz : Românii din Italia (Religion and Migration in Contemporary Romania. Case Study: Romanians in Italy)*, 2011.

the two integrated studies, in a volume<sup>1</sup> that bears its name and contains aspects related to both approaches that refer to migration stages and levels of analysis involved.

## 1. CONCEPTUAL INSIGHTS

The basic concepts that were discussed this time were: migration, transnational migration, social remittances, economic development, social integration.

### 1.1. International Migration

As a complex social phenomenon, the migration phenomenon consists in this paper of two major specific definitions. In a first definition, "the migration is the movement of masses of people from one area to another, a traveling accompanied by a change of the domicile, of the residence" (Rotariu and Iluț, 1996, p.195). Regarding the residence, migration should last a long time, so that migrants are forced to change residence. Thus, migration connects the home environment and the environment of receipt, based on which we can talk about emigration or immigration. Romanian migration started out as mainly temporary involving a hypothetical re-migration. For most of Romanian people, migration offered a momentary solution by the double exploiting: on one hand of the emigrant, by short-term benefits from countries with attractive deals offered by a labor market open especially to foreigners, of the professions unsolicited by local population and, and on the other hand we talk about the destination employer's exploitation for an attractive workforce. The immigrant's attractiveness for the foreign employer is linked to a cheap, skilled, young workforce with little requirements regarding working conditions.

For many Romanian people temporary migration was accompanied by a hypothetical re-migration often explained by migrants' attachment to the home environment. This state has been called social mobility. Social mobility is given by the sorrow of separation from the home environment from the beginning. The consequences are difficulties in adapting to the destination, the absence of the "home" cultural framework, the absence of family and friends. Moreover, social mobility can be defined as the dramatic side of migration governed by regret over the lost social stability, by the acceptance of a sense of lack of protection, contributing by means of various factors to the more acute onset of the condition of

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<sup>1</sup> Petronela Daniela Feraru, *Românii din Torino între integrare, dezintegrare și reintegrare (Romanians in Turin between Integration, Disintegration and Reintegration)*, Editura Lumen, Iași, 2011.

"uprooted". The difference between Romanian population's migration in the early '90s and 2000 and migration after Romania's EU integration in 2007 is visible.

The migration tendency to reduce some of the consequences of social mobility has led the European Union to impose active measures related to the reintegration of migrant families at destination. International migration was continuously stimulated by economic interests, in that most Romanian people found professional occupations in economic areas more developed than the area from which they left. The factors that contribute significantly to the emergence of new behaviors among migrants vary from material factors, to objective/subjective, social, psychological or rational / affective factors (Miftodi, 1978, p.95).

In the second definition, according to sociologist Udai Pareek, migration is a social phenomenon which can be explained using the concepts of motivation, behavior and anticipation and which in terms of opinions, attitudes and motivations actively contributes to structuring the migrant's behavior without excluding the action of intermediaries such as constraints, aspirations, interests (Pareek, 1986, pp. 508-518).

### **1.2. Transnational migration (transnationalism)**

The transnationalism process concerns the social situation in which the phenomenon of migration takes place, a process called transnational migration. Although the latter concept of migration is vaguely defined, one thing is already mandatory, namely when discussing transnational migration we have to consider both countries involved in the act of migration, the country of origin and the country of destination of migrants. In addition, we must abandon prejudices related to advantages and disadvantages concerning either of these areas of migration. An explanation can be given by the nature of migration, by which the phenomenon becomes a social crisis solution for those critical circumstances of life. Hence, the temporary or permanent nature of migration.

There is even an enlightening view of migrants on the concept of "home", according to which migrants can be attached and emotionally connected to their places of origin and at the same time, attached to their destination. The authors of this view argue that "another feature of transnational migrants is that they remain economically, politically and socially in more societies. What defines the membership of these networks is a country of origin or of common origin "(Nadja and Khalid, 2002, pp.1-14).

### **1.3. Social remittances: a potential of resources**

Social remittances consist of ideas, behaviors, (social) identities, capitals that migrants export from communities of origin or import from the host communities to that of origin. This type of transfer takes place continuously and may include ideas about democracy, about health, equality, human rights and community organization. They offer globally, depending on the cultural flows where they exist, the possibility to identify channels through which they are disseminated and also the causes of their major impact. Social remittances can be positive and negative. While some see the migration as a greater democratization and accountability, others hold these rising migrations as a result of materialism and individualism.

Social remittances are under-used development resources that improve socio-economic indicators in both host and home country. Because migrants and non-migrants are induced in transnational social fields, their forces' shaping represents a transnational socioeconomic status. This occurs systematically by encouraging the flows of information on health, education or reversely towards the source country and in parallel by promoting the information flows towards the host country. Practitioners and policymakers can draw conclusions based on a set of ideas, beliefs and resources that immigrants already have. In this way, teachers and health service providers from the country of origin and from the host country gain a better understanding of the transnational factors shaping migrants, while having access to an enhanced set of tools which they have to improve. Migrants are expected to be repatriated to promote development, as migrants ideally save by capital accumulation, and by means of the skills acquired they become productive investing in their home country.

Another solution to the refugee crisis is the return to their country or moving to another country. The return is the best solution and choice. However, it is not enough if we consider the different results obtained and the return forms, personal characteristics, duration of stay abroad, level of incorporation in the host country, and the reasons underlying different types of returns.

Most studies suggest that after a short period of time, especially low-skilled migrants who were not able to adapt to the host country or who wanted to return are returned to their country but it is unlikely that they can contribute to development. Migrants returning after a longer stay abroad and who were able to save money to meet those development goals, have a much greater potential for development. Local development can benefit from migrants returned home, according to the abilities and skills of the returnees, if the home country provides favorable conditions from a social, economic, institutional, environmental point of view (Ghosh, 2000, p.181-226).

The vast majority of migrants 'suffer' from distrust in government, in politicians, in the system, in general. The first word spoken by them is "corruption" and they wonder why governments are only now interested in the situation of

migrants and were not so before their migration. But this is extremely important because migrants need reasons to understand the state and its efforts to be successful. This can really be a big obstacle in the way of transnationalism, in taking measures in terms of the employment policy. Critics say that the income of migrants, the skills, the philanthropy and the efforts must be coordinated in the country where migrants live. Politicians believe that emigrants do not have the right to a political voice because they lost touch with everyday reality in Romania. But are the migrants who had returned home a politically unexploited source?

Another challenge may be the understanding of the way in which migrant individuals whose lives are divided between several countries, economies and cultures can be better protected and represented, and what we should expect in return from them. But, to meet this challenge, we need to recognize the interdependence between origin and destination and the need to start solving problems outside the nation-state. Equally useful is looking for ways to turn the elite movement into a correct way to win. 21<sup>st</sup> century people claim multiple political, religious identities, in both countries (of destination and origin). The most critical task is to understand how individuals and organizations operate within cultures and to determine which are the exact costs and benefits. In the volume *Costurile sociale ale migrației externe din România*<sup>1</sup> (The Social Costs of External Migration in Romania) (2007) we provide more information in order to understand the way in which individuals and organizations negotiate these challenges, who wins and who loses, what are the risks and the way in which they all develop at some point a cost, a social cost, not necessarily an economic one.

#### 1.4. Economic development

The free movement of workforce in a market without environmental restrictions is expected to lead to an increased labor scarcity, leading ultimately to a marginal productivity and to an increase in the wage levels in migrant-sending areas. Capital flows are expected to go in the opposite direction of labor migration, to a limited capital in migrants' countries of origin. This equalization of the factor "prices" will stop migration once the salary level of the home and host countries converge. Djajic says that previous neoclassical approaches have ruled out the possibility of a gain for non-migrants because they have not taken into account the remittances in their models (Djajic, 1986, pp. 229-234).

Trends show to migrants that atomicity, maximization of individuals' income and their disrespect belongs to social groups such as households, families and communities from which migrants originate. In a strictly neo-classical world, the development role of migration is performed entirely by price equalization factor.

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<sup>1</sup> See also Feraru, P.D. (2007) *Costurile sociale ale migrației externe din România (Social Costs of External Migration in Romania)*, Lumen Publishing House, Iași.

This abstract model, some would say, offers no realistic perspective on the practical effects of migration on home societies. However, scientists and politicians advocate for migration as a development tool for societies that migrants leave. They generally admit the importance of remittances to which they assign a significant role in the stimulation of regional, national and local economic growth. According to the "developmental researchers", the development policies of the 1950s and 1960s migrants and the return of migrants viewed as important agents of change and innovation which invest money in economic enterprises from home are still dominant.

A hypothesis tested by previous studies on migration development shows that migrants do not only bring money along with their return home, they bring their ideas, their knowledge and the entrepreneurial attitudes acquired as a result of migration. In this way, migrants quickly contribute to the spatial distribution of modernization in relatively "backward" countries and play a positive financial and mental development role (Feraru, 2011, pp.26-28).

Beijer openly expressed optimism regarding the development, considering that migrants could also represent a hope for the industrial development of their native land (Beijer, 1970, pp. 93-109). Likewise, Kindleberger argued that large-scale migration could contribute to the best of both worlds: a fast growth in the country of immigration and rapid growth in the home country (Kindleberger, 1965, 1671).

### **1.5. Integration**

According to the Dictionary of Sociology, social integration is defined as the processuality of interactions between individual or group and the integral specific social environment, by means of which a functional balance of the parties is achieved (Vlăsceanu and Zamfir, 1998, pp. 300-301).

The integrated can be a person or a group of people, a social category, a territorial community, a social subsystem. Thus, we can talk about a professional, socio-professional, urban, cultural integration. While the elements which integrate are subsystems of the global social system, integration is societal. Integration is a relationship, a dynamic interaction between the system which is integrated and the system integrated. The assumption of the roles and the promotion of personal initiatives mark the participation stage.

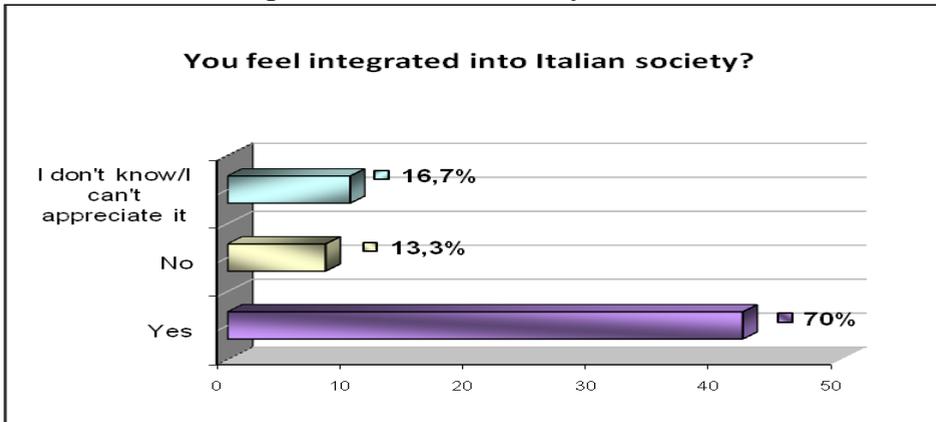
The need to know the conditions that favour the increase or decrease of social integration, of the consequences of a high or low level of integration and the need for measurement determined more analytical approaches of the concept. In the analysis of a social group it can be found that the simplest units can be: the social norms on the one hand, the individuals and their behavior on the other. Within the group we have three possibilities for integration: among norms, among norms and behaviors, among people. These are the elements which measure social integration, as well as cultural, normative, communicative and functional integration.

Integration of migrants is one of the stages of the migration process and refers specifically to the place of destination. We can find a perception of the respondents regarding the integration left to the Italian society, motivated as such: "*Their interest is to get integrated. The Italian is interested in integrating the immigrant because an integrated person is a person who tries to obey the laws and the lifestyle of that country ...*" (male, 33, nurse at Rivoli Hospital, Italy).

There are people who have undertaken a process of integration which can be considered "successful" as long as it took place based on the interviewees' accounts, as much they wanted and not more: "*Yes and no, integrated as much as I wanted yes, I can say that I'm happy with the level, there is a limit, everyone wants to integrate up to a point. No, I personally do not want to be integrated more than I already am...*" (Ioan Eugene Popițiu, student and coordinator subsidiary Italy LSRS).

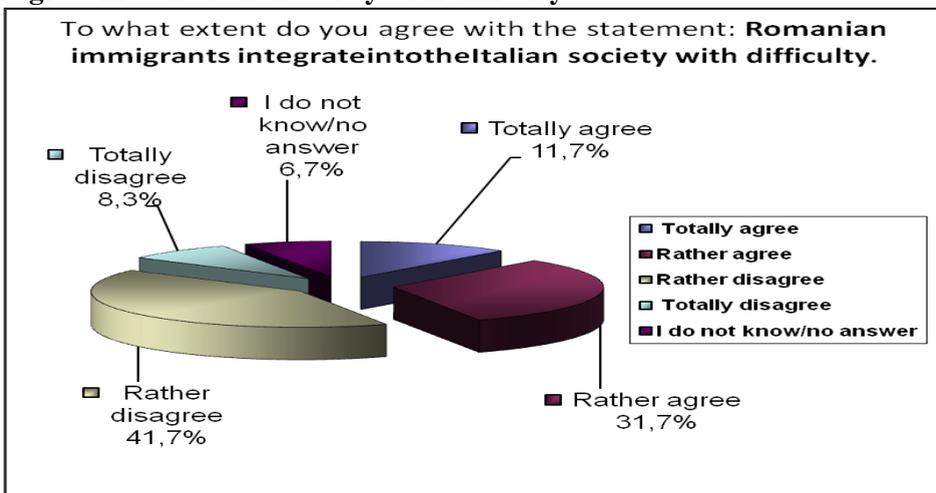
The general trend is towards a more stable residence in Italy. This result can mark a trend of reversal of the Romanian migration "traditional" behavior which was originally part of the temporary migratory model. Today we are witnessing a migration process which although is meant to be a short-term one, is often extended gradually up to a final settlement at destination trend. Although Italy has experienced in recent years an increasing number of Romanian people, Romanian migration trend towards this country is mainly related to low-skilled labor migration and less to the specialized one. According to research data of which we make mention here, most (56.7%) of respondents have secondary education followed by 33.3% who have higher education.

As an important cultural resource Romanian students in Italy contribute significantly to the integration process. 70% of respondents of the abovementioned case study responded that they felt integrated into the host society; most of them belong to the age group between 20-25 years (57.1%) of which 30 (71.4% ) are women. (view Chart 1).

**Chart 1. You feel integrated into Italian society?**

Source: Feraru, P.D. (2011) teza de doctorat *Religie și migrație în România contemporană. Studiu de caz: Românii din Italia* (PhD thesis *Religion and Migration in Contemporary Romania. Case Study: Romanians in Italy*).

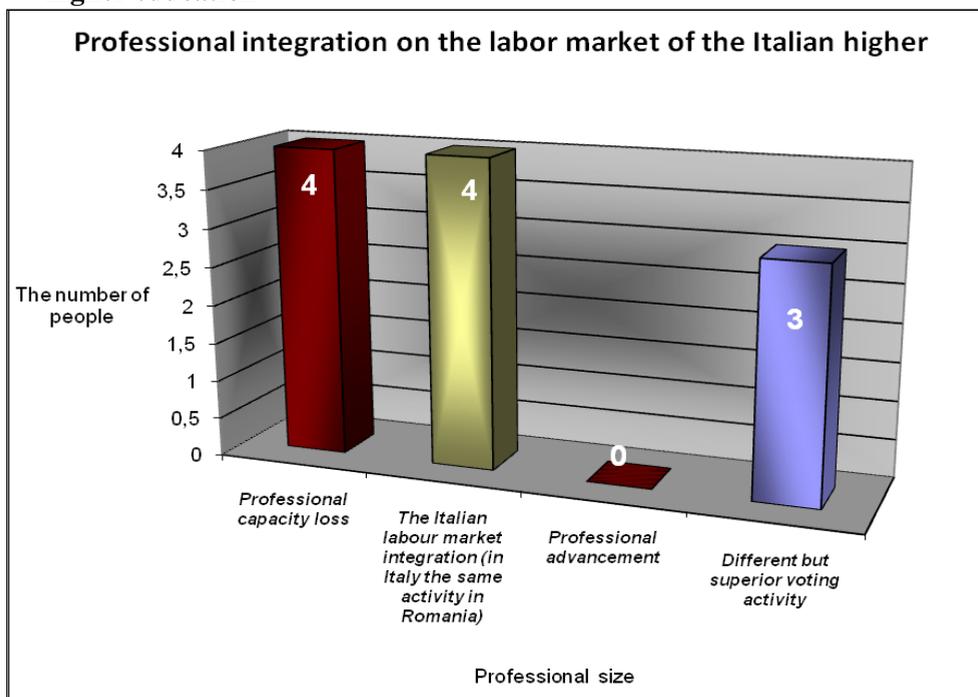
Also, the statement "Romanian immigrants integrate into the Italian society with difficulty" determined most of them (50%) to state that they "disagreed" with this statement while 43.4% said they "agreed" with it. (view Chart 2)

**Chart 2. To what extent do you agree with the statement: Romanian immigrants integrate into the Italian society with difficulty**

Source: Feraru, P.D. (2011) teza de doctorat *Religie și migrație în România contemporană. Studiu de caz: Românii din Italia* (PhD thesis *Religion and Migration in Contemporary Romania. Case Study: Romanians in Italy*).

The interviews with young Romanian people in Italy and the analysis of the data by means of questionnaire show that young people want and even manage to integrate and adapt into the host society easily, and this can occur due to the fact that young people are more open to the opportunities of today's societies which are in a continuous change. Regarding the professional integration of the respondents with higher education, we can notice a loss of professional capacity, meaning that as immigrants they perform a profession on the labor market under the high qualification level as compared to the level of employment they had at home. These people have experienced a setback of their professional position. (view Chart 3).

**Chart 3. Professional integration on the labor market of the Italian higher education**



Source: Feraru, P.D. (2011) teza de doctorat *Religie și migrație în România contemporană. Studiu de caz : Românii din Italia* (PhD thesis *Religion and Migration in Contemporary Romania. Case Study: Romanians in Italy*).

Note: the number of those 11 people with higher education was calculated from the total of 30 surveyed at research.

Vocational integration takes place, especially in lower skilled sectors even when we are dealing with migrants in their home country who have received training or have worked in different or better qualified areas. These data refer to the *segmented (dual) labor market theory* focusing this time on the actors of the destination area. International migration is the effect of labor demand inevitably linked to the characteristics of developed economies (Constantinescu, 2002, p.100). Thus, it appears that there are four factors that play a crucial role in creating the need for immigrant labor: structural inflation, hierarchical constraints of motivation, economic dualism, demographic changes of the labor reserve.

The general condition for successful integration is linked in case of most of the interviewees, to issues concerning the rights and obligations which should be the same as those of the locals. There were subjects who made a number of proposals regarding a possible enhancement of Romanian's people integration in Italy. But in almost all cases, suggestions refer to actions which must not address solely Romanian communities, but all immigrants in Italy.

## **2. EASTERN PARTNERSHIP - COOPERATION INSTRUMENT IN THE MIGRATION FIELD**

European Union's Eastern Partnership is an important regional instrument of cooperation in the migration field. Based on this idea, we try to bring in this paper aspects of best practices regarding the measures that should be undertaken both by the countries of destination and by the countries of origin (especially if we talk about transnational migration) to facilitate and control circular migrations. Thus, two of the most important forms of circular migration are discussed, affective migration and economic migration; both follow the migration trends in the Member States of the Eastern Partnership. From here we can extract the conditions necessary for the effective development of circular migration in countries of destination and of origin. Along the research, the Bilateral Agreements on external migration and social protection issues within migration proved to be very significant.

As a European Union member state and as a country with a large number of immigrants in European countries, Romania should have as a first objective, the exploitation of the opportunities offered by the Eastern Partnership both in terms of the bilateral dimension, and of the multilateral one, based on the principles of differentiation. Also, Romania should show an increased interest for cooperation within those thematic platforms related to migration and social security. Romania's involvement should strengthen the legal framework and implement the elaborated activities in various Action Plans, from requirements to the description of the measures already taken in the field of migration.

This paper is a simple attempt to promote data on migration from an affective and economic perspective, launching concrete cooperation initiatives in areas such as: reducing the negative effects of migration on vulnerable groups (children,

families back home), social protection of migrants, efficient management of the labor market, efficient management of health professionals' mobility. Also, in dealing with the affective and economic effects of circular migration in relation to the Eastern Partnership of the European Union, we formulate a number of issues on further cooperation and joint actions in the field of employment and migration. This partnership may include important programs which aim to contribute to the initiation / development of small and medium enterprises (SMEs) to create jobs, effective investments of resources generated by migration in national economy and to reduce the negative effects of migration.

### **3. ROMANIAN IMMIGRANTS IN EUROPE**

Romanian society delineates randomly nowadays the portrait of the Romanian immigrant and highlights the Romanian authorities' neglect regarding the fact that Romania tends to run out of young people, out of specialized capital. The departure of young people and of specialists in various key areas for our society from Romania could raise serious problems for the future of this country that balances the economy and the sense of belonging. For Romania, the migration phenomenon is not a surprise as the departure of Romanian people motivated economically next to their return "home", emotionally motivated, is no longer a secret.

According to the Report on immigration issued by the Organization for Economic Cooperation and Development (OECD) published in 2010, the number of Romanian immigrants in the EU is of approximately 2.7 million ([www.romania-actualitati.ro](http://www.romania-actualitati.ro)). Of these, 50,000 are specialists (engineers, doctors, accountants and programmers) just 10-20000 EU are resettled employees in EU multinationals and most of them, almost 2 million Romanian people are doing the "dirty jobs" (hoteliers, construction, agriculture, housekeeping).

According to the statistics provided by the Italian authorities, the number of Romanian immigrants reached 796,000 in 2008, double to that of 2006, which makes them the largest community in the Peninsula. And in Spain, the number of officially registered Romanian immigrants continued to grow, in January 2009 in Spanish municipal registers were recorded 797,000 Romanian people, 9% more than in 2008 and 50% more than in 2007.

### **4. THE DETERMINANT FACTORS OF ROMANIAN MIGRATION**

The decision to migrate is determined by objective, material factors, but turning the decision into the act of migration is supported by a number of other factors and primarily by motivational factors. Migration factors are divided into objective factors and subjective factors acting on three levels: at the place of origin (here rejection factors prevail, namely the migrants do not give up what they have, and reject whatever does not meet their expectations in the country of origin), at the

place of destination (attraction factors predominate) and the interaction between the two origin-destination plans. It should be noted here that the decision and the migration act (or actual emigration) are interrelated.

A central role in the migration decision is played by the level of education of the individual. Experts have shown that there is a direct correlation between the level of education of the individual and the probability of migrating. This may be due in part to the fact that more educated people are more efficient in finding alternatives on the labor market, thereby reducing migration costs. It is also generally accepted that alternatives for these people are more numerous and varied. Economic incentives will also be higher for individuals with more thorough training.

The decision to migrate is often not a final decision. Return migration or repeated migration can be generated by the realization of the fact that wrong decisions were made when calculating earnings, which is most often based on insufficient information. Each migration flow is often followed by a return migration flow, which can be considerable in some cases.

Also, research identified two ideal decision situations which can be defined by the distinction between "proactive migration" and "reactive migration" in which the proactive migration is the case when individuals migrate to find more favorable contexts in which they can reinvest their capital available, so as to maximize their benefits. In cases of reactive migration, individuals migrate to prevent or reduce the damage that may result from certain social, political, economic background, or due to changes in the natural environment.

At the micro level, the migration decision is the result of a process by which rational individuals evaluate the benefits of the migration act, the moving costs. The migration decision refers to a plurality of reasons and causes, and generally is a result of a cost-benefit analysis, influenced by positive and negative factors (push-pull). This model refers to five factors that are present in the destination country, factors that pull and two factors from the country of origin that push the individual to emigrate.

To summarize, the picture that emerges from our research data is that of a community whose migrants are suspended between two realities, a positive and a negative one. Most aspects related to the home country, to the relations between Romanian people, to the Romanian family in general have negative connotation, while the aspects related to the destination country, to remuneration, working conditions and life, have positive connotation.

According to the motivation hierarchy proposed by V. Miftode three levels of "reflection" of the factors which determine effective migration are established (Miftodi, 1978, p 97). Out of the 30 respondents most were determined in their migration by objective economic factors, wanting to earn more, followed by those determined by economic factors as well by the desire of wealth or by the desire to earn more and to live a peaceful old age. There were people determined in their migration by professional factors - educational namely, by education reasons as

students, and by the pursuit of a profession according to their training. Some interviewees have been determined in their migration either by socio-cultural factors (religious tourism and comfort) or affectively by reasons such as family reunification or the possibility of creating a social network at destination.

In conclusion, the analysis of our survey data shows that most respondents were determined in their actual migration by objective economic factors out of the desire to earn more money in Italy. Men are more motivated than women professionally and educationally and aspire for a profession according to the training they had in Romania. Women are regarded as more likely to accept a job improper to the training they had in Romania.

Romanian education system makes an enormous free service to the labor markets of other countries, which take Romanian educated youngsters, willing to work and develop a career, they offer them jobs and salaries from which they can live decently. The Romanian youth migration to Europe and to other areas attractive from a professional and economical point of view is a natural reaction to the lack of prospects from the labor market in Romania. School is perceived by most young people as not having a key role in their training for life. The core values of the young Romania people are nowadays family, personal fulfillment and faith in God, although a small number of them value tolerance and responsibility.

## CONCLUSIONS

From the explorations conducted, Romanian migration proved to be both economic and affective. Affective migration is related both to the migration decision and to the decision to return home. Romanian immigrants from Italy endeavor to maintain their emotional ties with their family at home, with their own traditions, their own identity, without trying to rebuild a new Romania in certain parts of the country of destination. Economic migration is linked to the motivation of leaving and to the economic situation of the destination area. Once arrived at destination the economical form of migration is given by the role of remittances. Here, both states involved in the act of migration are advantaged. In Italy remittances have an important dimension, becoming a transnational economic space able to link migration and development. Economically, the immigrant increasingly stands out as an important economic subject for both the country of destination and for the home country. In fact, individually, it is found that migrants live conditioned by their own networks from the point of view of their receipt and of the migration strategies which are constantly changing due to family needs.

Hypothetical re-migration of migrants is related to the relationship between migrants and the family left at home. Since most subjects do not want to return at all or very soon in Romania, researchers tried to identify the investment of Romanians working in Italy. It was noted that most of them say that they invest in the construction or renovation of the house and to support the family left behind.

Although few in number, there are families who have started a business either in Romania or in Italy (usually the family business is conducted among first-degree relatives, brothers and / or sisters). Luxury expenses are also limited to a maximum because once returned to their native country, these can be considered a source of prestige. Otherwise said, the family is the first nucleus within which migration is managed from an affective and economic point of view.

The balance and push-pull models of migration, which practically see migration in dichotomous terms as a result of spatial differences in the levels of development between the countries of origin and those of destination, are generally observed in the migration patterns. Explaining emigration availability through the socio-economic factors indirectly provides a number of reasons, reasons which are not often stated by migrants because they want to "defend their prestige" or because they are too proud to say it.

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# THE PATH TOWARDS COHESION: REFLECTIONS ON RESEARCH AND DEVELOPMENT SECTOR IN THE EUROPEAN UNION

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**Abstract:** *The reducing of the development gaps is a goal pursued by all emerging European states in the common effort to achieve an increased cohesion. The ways through which the economic disparities could be diminished are varied but in this paper we will focus on the importance of scientific research. The target of allocating at least 3% of GDP, from both public and private sources, for research and development (R&D) activities, stipulated in the EU 2020 Strategy, represents a fundamental milestone in our analysis, the main purpose being to answer to the following questions: Which is the potential of convergence on scientific research line of the least developed countries in the EU27?; How does the Cohesion Policy, through the structural funds, improve the quality of scientific research?; Which are the perspectives of cooperation between the research institutes and the private sector in order to generate a higher level of innovation in society?; It is possible to create new innovative clusters in Romania, bringing added value to the economy and thus reducing the development discrepancies? Answering these questions in a comparative manner, it will be emphasized the need for giving a major significance to scientific research, especially through a sufficient funding in all countries.*

**Keywords:** cohesion, scientific research, innovation, competitiveness, European Union

## 1. STATE OF THE ART ON HUMAN RESOURCES MATTER

In the actual context of economic development, human resources are essential elements of competition, both nationally and internationally. In a competitive, computerized, global economy, the quality of human resources is the main factor underlying the differences between states. In what is concerning the concept of “human capital”, it is used, in the incipient stage, in the classical economic school, at Adam Smith, who appreciate that “a man who spent a lot of work and time in training must prove a higher level of skill and dexterity, being compared with an expensive car, but with great performances. The investment in

human resources means the increasing of the results. For example, an untrained worker in the production of needles could do with all his diligence only one needle per day and no doubt he could not make twenty” (Pohoățã, 2007, p. 4). In the paper *Principles of Political Economy*, the representative of neoclassical school, Alfred Marshall, considered “the most valuable of all is the capital invested in the human being” (Marshall, 1890). Although it has only known assertion and conceptual structure after the 7<sup>th</sup> decade of the XX century, the term of human capital was used much earlier in economy. Two methods were used in order to estimate the monetary value of the human being: the procedure of production cost and that of capitalized incomes. The first method resides in estimating the net costs of human being “production” in its development, excluding the maintenance costs, William Petty and Ernst Engel being among the promoters. The second method consists in evaluating the present value of past and future incomes of individuals, Shield Nicholson and Alfred de Foville were those who used the method (ICCV, 2009). The modern theory of the social capital was developed around the intellectual group from the Chicago University, coordinated by Theodore Schultz<sup>1</sup>, president of the American Economy Association. Postulating the rationalization of individuals, Schultz and his collaborators treated the educational and health expenses as investments with the purpose of increasing work productivity and generating economic growth. Jacob Mincer, Gary Becker and those who followed them focused especially on the study of relationships between the human capital and the work incomes, more exactly on the analysis of incomes variations according to the individuals’ degree of education. This is the object of human capital theory, whose remarkable exposal is achieved by G. Becker (1962, 1994)<sup>2</sup>. The theory essence is simple: the incomes of people substantially grow according to their degree of education. The author demonstrates that the investment in human capital, education, training and healthcare generates the largest increase in labor productivity and has an important contribution to growing of GDP. Thus, the human capital is a mean of production in which investments may lead further increasing production (Skelton and Gorard, 2011; Lubinski et al., 2006; Krueger and Lindahl, 2000; Frunzã, 2010). Mincer and Becker have generally restricted their approaches regarding the human capital when analyzed the educational capital<sup>3</sup>, emphasizing the costs

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<sup>1</sup> In 1963, Theodore W. Schultz, Nobel Prize winner (1979) for contribution to growth theory evaluated in the light of human capital, published the paper “The Economic Value of Education” and in 1971 “Investment in Human Capital”.

<sup>2</sup> On the ground of economy, the best interpretation of human capital belongs to G. Becker, Nobel Prize winner for Economics in 1992, for his work and analysis on the role of human capital in the economic growth.

<sup>3</sup> The educational capital is presented in two distinguished forms: on the one hand it represents the abilities acquired after participating to formal educational systems, knowledge certified by diplomas; and on the other hand it is any other knowledge and

associated to the training investment, and the relationship between school and post-school investments.

In the last decades, the analyses regarding the human capital have begun defining it as educational capital especially as a result of the human capital theory impact. The education represents in fact the essence of human capital, its importance being superior to the components associated to the state of health (Bedrule-Grigoruță, 2006). More than ever, the performances obtained through human development depend on the production and the assimilation of knowledge in the processes of creating earnings, on the man's capacity to take a step forward through innovation, on the efficiency of mobilizing the resources put at the disposal by the precious capacities of man. We must learn that the prosperity that we all dream primordially depends on an inestimable treasure, our capital resource, the man (Mursa, 2006)<sup>2</sup>. To summarize in a few words, the contribution of education to the improvement of the quality of human capital and of the growth can be seen from multiple angles. From the perspective of microeconomics, education increases the productivity per worker, and from macroeconomic point of view, the stock of existing human capital contributes to increasing GDP by crossing several levels of education (from the lower level - primary education, to higher education - university and post-university education) (Björklund and Kjellström, 2002; Castelló and Doménech, 2002). G. Jones and W.J. Schneider have calculated in their studies the average of IQ in 81 countries and have highlighted the correlation between results and economic growth. The conclusion reached is that at one unit increase of the level of intelligence of a nation will entail, on average, an economic growth of approximately 0.11% per year (Jones and Schneider, 2006; Hanushek and Kimko, 2000). Therefore, we can say that the intelligence is a measure of human capital. This statement is completed by an OECD study which shows that the participation in an additional year of education increases the average growth by up to 5% and to 2.5% on the long term. Moreover, a further year of schooling increases the level of individual wages by approximately 6.5%. The experience showed that the unemployment rate declines with higher education levels, reducing the social costs involved (OECD, 2012). In conclusion, we can affirm on the one hand that among the factors that influence investment in human capital are included the general state of a economy, the length and stability of income flow, the differences in income, direct and indirect costs, rent of ability, the recovery of investment in human capital, the marginal income of it etc., and on the other hand that the employment rate increases with the level of education attained.

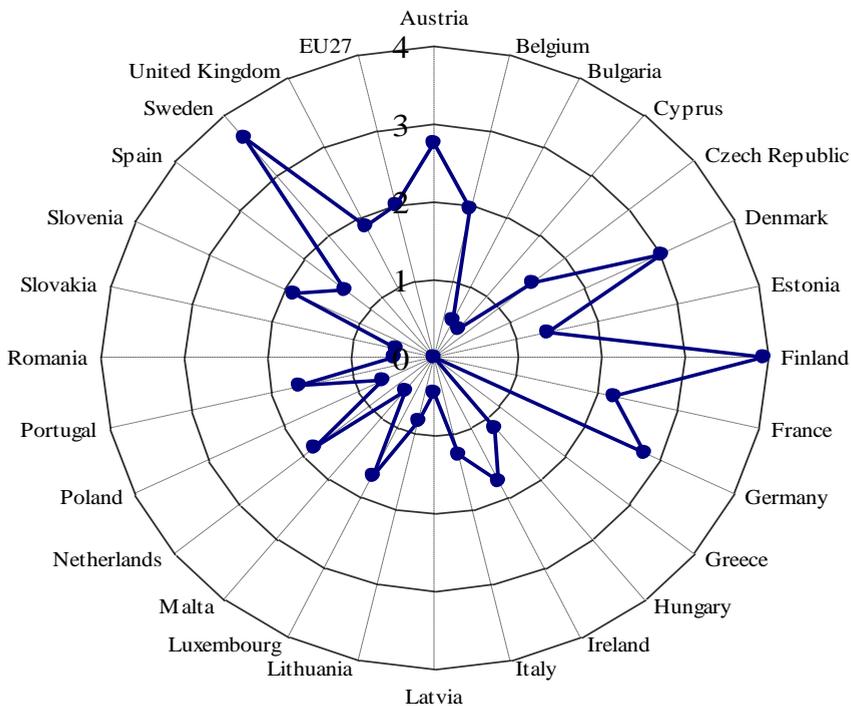
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abilities acquired during life, through own efforts or contacts with experts in different fields, assimilating information by interacting with them.

## 2. ANALYSIS OF R&D ACTIVITY IN THE EU COUNTRIES

The qualities of human resources in general and the educational factor in particular are determinant factors for the overall economic growth. The specialists in the field believe that there is a very close relationship between the technological progress and the investment in education, with implications for all areas of life: economic, social, political, cultural. In Figure 1, there are emphasized the differences that occur between the EU27 member states concerning the expenses in R&D sector.

**Figure 1. Expenditure with R&D in GDP (%), year 2011**

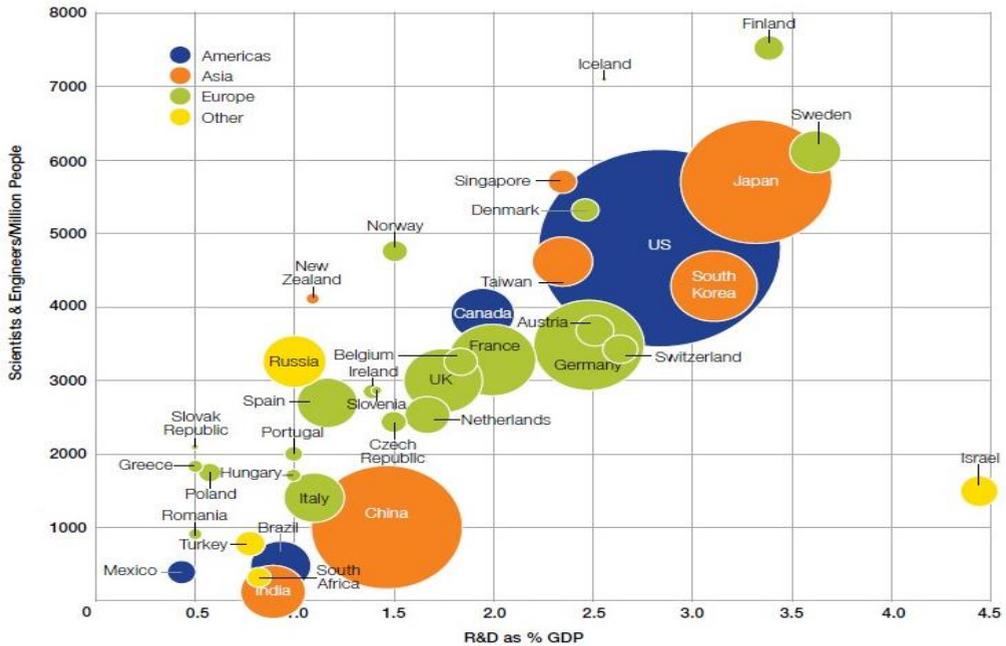


*Source:* authors' representations based on Eurostat data, 2011

Looking at Figure 1, can be seen that the highest percentages in the direction of R&D expenditure are found in Finland (3.96%), Sweden (3.62%), Denmark (3.02%), Germany (2.82%), Austria (2.75%), France (2.21%). In terms of this investment, these countries are over the EU27 average, which is of 2.01%. In such circumstances, it is understandable that the EU27 average is raised by the member states mentioned, some of them exceeding the target set by the Europe 2020 Strategy, according to which by 2020 the rate of investment in R&D should

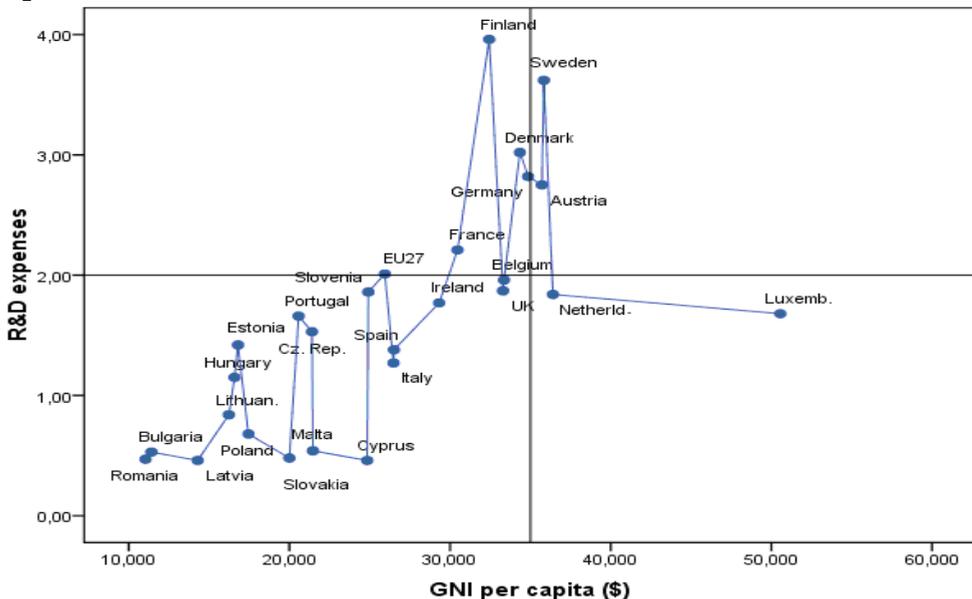
be at least 3% of GDP. This objective is very ambitious when we think of some European countries, which currently spend very little on this sector, less than 1%. We specify here Latvia and Cyprus, both with 0.46%, Romania (0.47%), Slovakia (0.48%), Bulgaria (0.53%), Malta (0.54%), Poland (0.68 ) and Lithuania (0.84%). At global level, the picture of R&D expenses related to the number of scientists and engineers looks that in Figure 2.

**Figure 2. R&D expenses, at global level, 2011**



Source: after OECD, IMF, CIA data, 2011

Thus, it is gratifying that in the world rankings stands out the EU countries, namely Finland and Sweden. We can also see that as R&D expenditure, globally, Romania is comparable to Mexico. Usually, the more countries are rich, both public and private expenditure allocation to this sector is more consistent. But we must to point out the fact that countries that are currently on the top of the hierarchy at this chapter have understood since the '70s and '80s years that the investment in R&D is an essential need in order to advance towards an economic and technological progress. In Figure 3 we observe that the Nordic countries have realized the importance it holds research in economy, creating spillover effects.

**Figure 3. The relationship between R&D expenses (% of GDP) and GNI per capita (\$)**

Source: after Eurostat and HDR data, 2011

The leading position is occupied by Finland (3.96% of GDP), followed by Sweden (3.62%) and Denmark (3.02%). Romania, which has according to Human Development Report (HDR) the lowest level of GNI per capita (11.045\$), invested in 2011 only 0.47% of GDP in R&D direction. Somewhat on the same path with Romania is Bulgaria and Latvia.

To highlight the degree of interaction between the development level of a nation and the R&D expenditure, we present in Table 1 and Table 2, the results obtained in different regression models.

**Table 1. Model Summary**

Models	R	R Square	Adjusted R Square	Std. Error of the Estimate
Linear	.682	.465	.444	.725
Logarithmic	.710	.504	.484	.698
Quadratic	.745	.554	.517	.675
Cubic	.806	.649	.603	.612
Exponential	.715	.512	.492	.480

The independent variable is GNI per capita (\$).

Source: own calculations, based on Eurostat and HDR data, 2011

We note that across all models (linear, logarithmic, quadratic, cubic, exponential) there is a direct relationship between the dependent variable (R&D expenses) and the independent variable (GNI per capita), the value of R being over 0.500 in each case, which points out that the two variables influence each other in a proportion of over 50%.

**Table 2. Regression models**

Models	Description	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
<b>Linear</b>	GNI per capita (\$)	.071	.015	.682	4.663	.000
	(Constant)	-.213	.421		-.507	.617
<b>Logarithmic</b>	ln(GNI per capita (\$))	1.813	.360	.710	5.039	.000
	(Constant)	-	1.157		-	.001
<b>Quadratic</b>	GNI per capita (\$)	.213	.066	2.039	3.217	.004
	GNI per capita (\$)** <sup>2</sup>	-.003	.001	-1.390	-	.038
	(Constant)	-			-	
		1.966	.890		2.208	.037
<b>Cubic</b>	GNI per capita (\$)	-.372	.242	-3.564	-	.138
	GNI per capita (\$)** <sup>2</sup>	.019	.009	10.131	2.175	.040
	GNI per capita (\$)** <sup>3</sup>	.000	.000	-6.175	-	.020
	(Constant)	2.838	2.089		1.359	.187
<b>Exponential</b>	GNI per capita (\$)	.052	.010	.715	5.119	.000
	(Constant)	.351	.098		3.588	.001

The dependent variable is ln(R&D expenses).

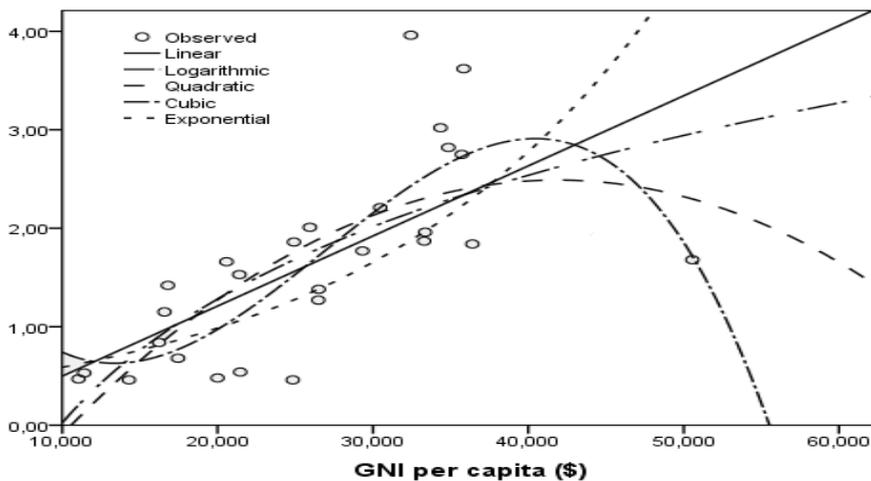
*Source:* own calculations, based on Eurostat and HDR data, 2011

Out of the five regression patterns we determined, the one which describes the best the relationship between the representative variables is the exponential one because it meets the following conditions at the same time:

a) the correlation ratio ( $R=0.715$ ) goes towards 1, which means that the more high the level of development of a country is, the tendency to allocate more financial resources in the direction of research is higher;

b) the significance level (*Sig.*) is smaller than 0.05 in the case of the exponential regression (0.000), which means that the regression parameters explains the connection between variables with a probability of over 95%. Thus, the regression equation appears like:  $Y=0.351+0.052*X$ , namely: GNI per capita= $0.052*R\&D$  expenses + 0.351, which denotes that for an increase by 0.3 \$ in the GNI per capita, the R&D expenses could increase by about 0.05%. This regression equation expresses only a trend which does not require a precise transposition in the real economy. In Figure 4 are represented the graphical representation of these models.

**Figure 4. The interdependence between R&D expenses and GNI per capita (\$)**



*Source:* own representation, based on Eurostat and HDR data, 2011

As a result of these findings, we can easily answer why Romania have not succeed to increase research spending even to be near the value of 3% of GDP, of which 1% to be obtained from the state budget and 2% from other sources. This value is an ambitious target but the Ministry of Education and Research made in 2007 some estimations concerning the sources of funding for

Romanian research in order to realize the Lisbon Strategy objective. The situation is presented in Table 3.

**Table 3. Sources of funding for Romanian research (% of GDP)**

Year	<i>State budget</i>	<i>Economic environment</i>	FP6/FP7 <sup>*)</sup>	Structural funds <sup>*)</sup>
2002	0.21	0.16	0.01	
2003	0.20	0.18	0.01	
2004	0.21	0.19	0.01	
2005	0.27	0.30	0.02	
2006	0.38	0.40	0.03	
2007	0.56	0.40	0.04	0.20
2008	0.75	0.60	0.10	0.50
2009	1.00	1.00	0.15	0.60
2010	1.00	1.20	0.20	0.60

*Source:* Ministry of Education and Research, 2007

These estimations of Ministry proved to be unrealistic, the investment in research being currently less than 1% of GDP. Concerning the distribution on the sources of funding, we consider that, in a large proportion, this goal is difficult to achieve even by 2020. It is supposed that by then, Romania will allocate up to 2% of GDP in R&D sector, so it will be unable to achieve this goal stipulated in the EU development strategy. Therefore, we conclude that when are taking decisions regarding the allocation of expenditure in the economy, the calculations are often focusing less on sectors that generate higher added value on long term. Without a coherent strategy based on the real needs of the economy, without a long-term vision and without the existence of some tools appropriate to the implementation of measures taken as a result of rational economic calculations, certainly the R&D spending will not increase significantly in Romania in the near future (Brouthers et al., 2001). That's why it is not hard to understand why at the education index chapter our country is positioned at the bottom of the European ranking (Table 4).

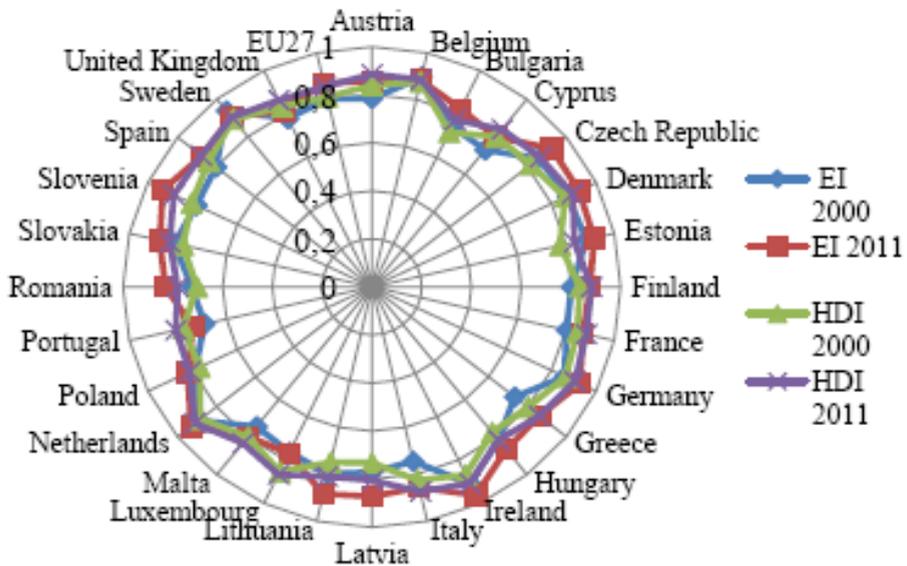
**Table 4. Education index in 2011 in the EU27 states**

Country	Education index	Country	Education index
Ireland	0.909	France	0.802
Slovenia	0.783	<b>EU27</b>	<b>0.803</b>
Netherlands	0.892	Hungary	0.816
Germany	0.928	Greece	0.734
Czech Republic	0.857	Austria	0.785
Denmark	0.872	Italy	0.745
Estonia	0.884	<b>Romania</b>	<b>0.725</b>
Sweden	0.937	Bulgaria	0.742
Lithuania	0.799	Poland	0.789
Belgium	0.896	United Kingdom	0.778
Finland	0.803	Cyprus	0.798
Slovakia	0.814	Malta	0.744
Spain	0.801	Luxembourg	0.764
Latvia	0.771	Portugal	0.691

*Source:* data collected from Human Development Report, 2011

If until 2010 year, the education index (EI), which is a component of Human Development Index (HDI), along life expectancy index (longevity) and standard of living (expressed in GNI), was calculated as a weighted arithmetic average between the degree of literacy of adults (with a share of two thirds) and the gross coverage rate in education at all levels (one thirds), in 2011 year it was calculated as a average between the Mean Years of Schooling (MYS), that a 25 years old person or older has spent in schools and Expected Years of Schooling (EYS), that a child that has over 5 years old will spend with his education during his whole life. This index varies on a scale between 0 and 1, the level of human development is even higher if it is closer to the value 1. Compared to year 2000, both education index and HDI have known a growth by 2011 year. For the education index the highest values occurring in Ireland (0.963) compared to 0.909 in 2000, Slovenia (0.933) versus 0.783; Netherlands (0.931) versus 0.892; Germany (0.928) versus 0.860; Denmark and Czech Republic (0.924), compared of 0.872 and respectively 0.857.

In Figure 5 is represented the dynamic of EI and of HDI in year 2011, compared to year 2000.

**Figure 5. EI versus HDI, 2000 and 2011 year**

*Source:* own representation, based on HDR data, 2011

We note that a significant step has been made by Slovenia, which seems to know how to define the national development program, focusing, as it should happen in any economy, on education. This fact gives it, according to Eurostat data, the 12<sup>th</sup> position concerning the GDP (86 points in PPS) of the 27 European Union nations. Bulgaria and Romania, countries with the lowest GDP in the EU, scored on the EI the following values: 0.822 in 2011 and 0.742 in 2000, respectively 0.831 in 2011 and 0.725 in 2000. Considering the HDI we can see the same trend as for the EI: when the EI register a growth or a decrease this involves a change in the same direction of HDI.

In Table 5 are presented the correlations between the indicators: GNI per capita, R&D expenses, HDI, MYS and EYS.

**Table 5. The correlations between indicators**

Coefficients		GNI per capita				
		MYS	EYS	(\$)	R&D expenses	HDI
<b>MYS</b>	Pearson	1.000	.188	.036	.183	
	Kendall's tau_b	1.000	.132	.078	.165	.313*
	Spearman's rho	1.000	.183	.078	.237	.393*
<b>EYS</b>	Pearson	.188	1.000	.177	.484*	
	Kendall's tau_b	.132	1.000	.275*	.396**	.462**
	Spearman's rho	.183	1.000	.391*	.581**	<b>.621**</b>
<b>GNI per capita (\$)</b>	Pearson	.036	.177	1.000	.682**	
	Kendall's tau_b	.078	.275*	1.000	.576**	.723**
	Spearman's rho	.078	.391*	1.000	<b>.782**</b>	.881**
<b>R&amp;D expenses</b>	Pearson	.183	.484*	.682**	1.000	
	Kendall's tau_b	.165	.396**	.576**	1.000	.546**
	Spearman's rho	.237	.581**	.782**	1.000	<b>.770**</b>
<b>HDI</b>	Kendall's tau_b	.313*	.462**	.723**	.546**	1.000
	Spearman's rho	.393*	.621**	<b>.881**</b>	.770**	1.000

\*. Correlation is significant at the 0.05 level (2-tailed).

\*\* . Correlation is significant at the 0.01 level (2-tailed).

*Source:* own calculations, based on Eurostat and HDR data, 2011

Can be observed that the strongest interdependencies are on the one hand between GNI per capita and HDI (Spearman index has a value of 0.881) and on the other hand between GNI per capita and R&D expenses (Spearman index has a value of 0.782), in consequence determining a strong connection between HDI and R&D expenses (0.770). This means that the more a country will invest in research and development, both HDI and GNI per capita will increase on long term, which will generate multiplier effects in economy, felt especially through the growing of the Expected Years of Schooling (EYS: Spearman index 0.621).

### 3. WHERE ROMANIA IS HEADING IN TERMS OF RESEARCH AND INNOVATION?

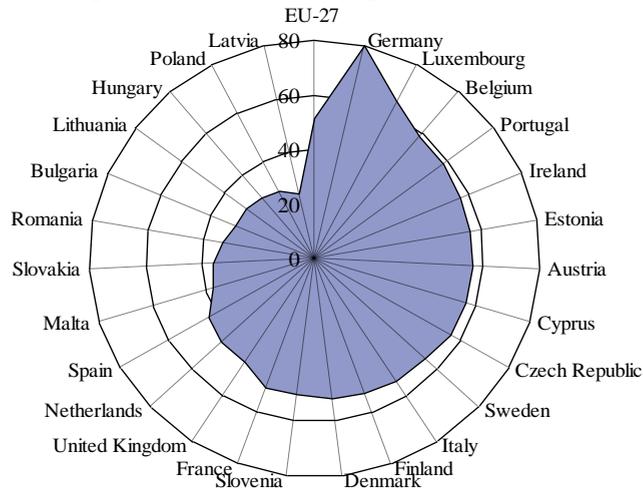
Referring to Romania, there are two conclusions stipulated in the Human Development Report: 1) the research system is very complicated and fragmented and 2) the funding of research is scanty. In addition, it occurs a poor integration of Romanian research in the European Research Area, reflected by low amounts that our country absorbs from the budget of the Framework Program (FP) of the European Union. In Table 6, it is exposed the Romanian participation with projects and the success rate obtained from the FP:

**Table 6. Romanian participation in FP and the success rate**

Country	No. of proposed projects	Projects retained for funding	Success rate (%)
<b>Romania</b>	<b>1.066</b>	<b>108</b>	10.27
Bulgaria	621	70	9.41
Czech Republic	1687	220	15.20
Hungary	1576	226	16.76
Poland	2774	363	13.96
Slovakia	741	97	15.42

*Source:* Ministry of Education and Research, 2011

We observe that the success rate of funding is relatively low (10.27%), compared with the number of projects submitted (1.066), after countries as Hungary, Slovakia, Czech Republic, Poland. Therefore, we can explain the low proportion of innovative enterprises in Romania (only 24.82%) compared to other countries at the European level (Figure 6).

**Figure 6. Innovative enterprises (% of all enterprises), 2011**

*Source:* own representation based on Eurostat data, 2011

At the EU level should be fully aware that the sustainable growth process is directly proportional with the innovation (Melnyk, 2012; Von Zedtwitz and Gassmann, 2002). For this reason, in the Union strategy concerning the innovation, supporting innovative clusters is defined as a major priority for promoting innovation (COM (2006) 502). In this respect, an important role is held by the initiative “INNOVA Europe”, launched in 2006, within the Competitiveness and Innovation Programme, which focuses primarily on the development of new or better tools, useful to clusters in their approach to support innovation. In year 2008, through the Small Business Act, the European Commission has regulated the first comprehensive policy framework for the SMEs of the European Union, promoting repeatedly the concept of innovative enterprises (COM(2008) 394). In Table 7 we represent a detailed picture of the innovative enterprises from the EU countries.

**Table 7. Innovative enterprises (% of all enterprises), 2011**

Innovations developed by an enterprise or by an innovative cluster					Innovations applied on market			
Countries	Total	With 10 to 49 employees	With 50 to 249 employees	With > 250 employees	Total	With 10 to 49 employees	With 50 to 249 employees	With > 250 employees
Belgium	42.24	42.73	39.25	47.5	47.46	47.13	45.48	59.25
Bulgaria	41.27	40.7	43.75	38.07	25.88	23.27	30.75	30.82
Czech Republic	38.99	40.09	35.36	41.17	39.14	34.04	46.96	54.13
Denmark	:	:	:	:	44.37	44.06	42.28	54.05
Germany	30.07	27.07	35.61	42.03	26.04	23.18	29.51	43.67
Estonia	40.52	37.87	44.27	55.98	25.84	24.21	27.99	36.11
Spain	50.7	50.58	49.4	57.37	21.45	18.01	28.12	43.61
France	50.77	50.84	49.07	55	43.24	39.92	46.32	60.04
Italy	44.94	44.04	48.7	47.92	47.65	45.45	55.52	61.43
Cyprus	50.93	53.46	47.33	22.73	26.75	23.96	33.59	40.91
Latvia	33.89	31.26	36.11	50.57	23.36	22.69	21.5	35.63
Lithuania	51.77	55.02	47.25	46.43	37.16	40.16	28.84	47.14
Luxemb.	51.66	48.03	53.19	69.67	40.62	35.32	47.6	55.79
Hungary	24.84	24.95	21.04	32.58	33.12	31.2	32.02	45.2
Malta	47.72	46.88	46.94	55	39.09	38.28	32.65	60
Netherl.	23.38	22.02	25.66	29.35	49.23	48.11	51.29	53.56
Austria	37.6	34.91	41.69	45.83	49.54	46.27	52.14	66.44
Poland	43.71	45.79	40.73	42.67	41.53	40.11	41.59	47.45
Portugal	52.02	52.35	50.74	52.24	35.63	33.09	41.66	53.73
<b>Romania</b>	<b>66.02</b>	<b>67.01</b>	<b>64.43</b>	<b>63.72</b>	<b>24.82</b>	<b>22.98</b>	<b>26.84</b>	<b>31.4</b>
Slovenia	37.2	36.17	38.83	38.73	51.27	51.25	48.08	59.54
Slovakia	34.23	34.55	31.33	39.68	35.66	34.23	33.39	48.02
Finland	39.18	40.44	35.06	40	37.33	35.46	35.85	57.74
Sweden	33.52	33.12	33.01	39.53	50.4	48.29	53.55	62.79

Source: after Eurostat, 2011

In terms of innovation, Romania is placed in a top position (66.02%) but there are weaknesses in the implementation of inventions in the economic environment. The market absorbs only 24.82% of innovations and this because there are not financial and legislative incentives in this direction. Therefore, the authorities must to stimulate the clustering phenomenon not necessarily through direct interventions, but rather through indirect measures such as regulating the functioning of innovative networks, supporting the integration of enterprises into chains of clusters, strongly supporting of research and development. The innovations from Slovenia, Sweden, Austria, Netherlands, Belgium, Italy has the highest degree of implementation in the economic environment.

Having into consideration all aspects presented above, we can draw the SWOT matrix of the Romanian research-development-innovation system.

**Table 8. The SWOT analysis of Romanian R&D sector**

<b>Strong points</b>	<b>Weak points</b>
The long tradition of R&D sector; The decentralization of the decision-making system and externalizing the management system of research; Accumulating experience by creating the Research-Development National Plan, as a result of the participation to the FP6 and FP7 programs; Human resources well trained	Deficiencies at the decision-making level (low transparency, weak monitoring of programs, excessive bureaucracy); Weak correlation between the R&D system and the industrial politics; Low visibility of research; Weak development of innovation infrastructure and funding; Reduced mechanisms for disseminating the innovation results
<b>Opportunities</b>	<b>Threats</b>
The existence of R&D networks; Progressive integration of the R&D system in the European system; Existence of national and regional R&D strategies; Correlation of Romanian R&D strategy with the European R&D strategy	Reduced financing of R&D by public funds; Drastic reduction of private business in the R&D field; Reduced financial independence; Economic and organizational difficulties of the main R&D actors

*Source:* after Roșca, I. Gh., 2006, p. 11

Therefore, the weaknesses are more numerous than the strong points, but we hope that through active involvement of both citizens and institutions, remain a hope: that to remedy the situation so that we can hold in country the human intelligence, which to contribute to the economic development. This needs to happen, the more so as the only engine of change is in our opinion the human capital. Starting from these considerations, in the next point of the present paper we will try to outline some steps that are required to be taken into account in order to ensure quality in education and research.

#### **4. SOME MEASURES TO ENSURE QUALITY IN THE RESEARCH SYSTEM**

An important concern of the governments from the entire world consists in adapting education according to the economy's needs, and we refer here to the needs of labor market. The correlation between education and labor market is also shared by the companies or institutions interested to employ graduates, being sensible to the educational system's capacity to offer to the potential employees sufficient abilities and competences through which to be able to answer at the challenges of global economy and competition. Considering Romania, currently appears the need for giving a major significance to scientific research and for ensuring quality in education through<sup>1</sup>:

- ✓ the increase of funds allocated to R&D sector and the linking of innovative outputs developed by the research institutes to the requirements of the labor market;
- ✓ the creation of a national system of best practices in research for assure a greater international visibility;
- ✓ the development of an evaluation system based on performance indicators;
- ✓ the increase of funds absorption (Structural Funds) from de EU in order to modernize the methods of management/governance, resources, etc.;
- ✓ the extension of innovative networks between universities and economic environment (clusters in research, business incubators and spin-off sites, the establishment of science parks and poles of excellence) by creating a legal non-bureaucratic and fiscal advantageous partnerships (Armstrong et al., 2005);
- ✓ an efficient and transparent use of public and private resources allocated in R&D sector;

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<sup>1</sup> For a detailed presentation of the Romanian education system, see The Ministry of Education and Research (2008), *Report on the Status of National Education*, <http://www.edu.ro/index.php/articles/10913>.

- ✓ the increase of the confidence of international scientific community in the ability of Romanian system to provide performance;
- ✓ the continuous improvement of the activities in all fundamental areas of competence.

## CONCLUSIONS

The governments play without doubt the central role in the direction of supporting the development of human capital. The public budgets are generally the main sources of funding, but private expenses are also rather important. The beneficiaries of human capital development are at the same time the individuals, the companies and the society. Investing in human capital supposes several types of major options: the decision regarding the level of optimal investment for the respective society and its members; the manner of distributing the costs between the public and private budgets; establishing the procedures of monitoring, measuring, evaluating and assuming the responsibilities for the short-term, medium and long-term investment results. The methods for stimulating the investments of private companies into human capital suppose, among other things, to be informed about the benefits of the investment, discounts in taxes, transparency on the labor market for emphasize the connection between education and knowledge, on the one hand, and salaries, on the other hand.

Currently, in Romania, in order to invest in human capital it is necessary to go through certain stages, not only conceptual, but also of mentality: first of all, it is necessary to understand the fact that, without a fast and thorough progress in the R&D sector, we will be able to have neither an economic growth nor an increase of the standard of living, no matter how many funds the European Union or any other international financial institution allot us; secondly, a real reformation of the entire educational system is necessary; thirdly, the change of mentality is required, the citizens of the country, businessmen, parents, young people need to understand that investing in education and research is the most important objective for the future. This great responsibility belongs to us, to all, individuals and governments at the same time. Otherwise, it will be difficult to catching-up the development gaps compared to other EU countries and to exit the peripheral economy status.

### Acknowledgements:

This work was supported by Sectoral Operational Programme for Human Resources Development, through the project “Developing the Innovation Capacity and Improving the Impact of Research through Post-doctoral Programmes” (grant POSDRU/89/1.5/S/49944).

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# CONTROVERSIES REGARDING THE SECURITY OF ROMANIA'S EASTERN BORDER IN VIEW OF JOINING THE SCHENGEN AREA

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**Abstract:** *After the terrorist attacks of 11 September 2001 and recently, on 15 April 2013, spent in Boston, policymakers of the Western governments were aware of the risks and threats to the national security of states and international security from the so-called "extend region of the Black Sea". This region of the world is separated geographically and symbolically by the Prut River which is the eastern border of Romania to NATO and EU allies and, in perspective, the frontier of the member states of the Schengen Agreement. Romania's eastern border security separates two spaces of security: the space of the Western states that are energy intensive and providing security versus the space of the former soviet countries that can provide energy and, at the same time, they need security. During this uncertain geopolitical context, controversies related to Romania's accession to the Schengen Area enhances security risks and vulnerabilities to the eastern border of the Western space and endangers the securing project of the Wider Black Sea. In this region full of uncertainty for the international peace and security, the EU should act as a "model of soft power in the Eastern neighbourhood".*

## 1. INTRODUCTION: CHALLENGES TO THE INTERNATIONAL AND REGIONAL SECURITY AT THE BEGINNING OF THE MILLENIUM

More than a decade has passed since the tragic events that took place in America in the dramatic day of September 9<sup>th</sup> 2001. For the first time since the end of World War II, the United States were being attacked on their own territory, without prior notice, by a non-state military force which was globally organised, for religious and ideological reasons. The terrorist attacks planned and executed by the terrorist organisation Al-Qaeda on American military and civilian targets have reconfigured the international security environment. Thus, the new millennium is marked by unconventional, asymmetrical, "frozen" unsolved military conflicts that take place on the map of an international system that has become unstable and unpredictable.

International peace and security are made vulnerable and increasingly threatened by actions of some state actors (Iran, North Korea, Syria etc.) and non-state actors (Al-Qaeda, Palestinian Hamas, the Lebanese Hezbollah, the

Muslim Brotherhood, Taliban from Afghanistan and terrorists from Chechnya) which present risks of multiplication that are difficult to control and fight. In this international context, the global economic crisis begun in 2008 and reactivated in 2012 amplifies the risks and threats to regional and international security.

In the context of rearranging the architecture of the international security system, the extended Black Sea region, located in "close proximity" to NATO and the EU and also in proximity to areas marked by "frozen" military conflicts, is being reassessed both geo-politically and geo-strategically. In the region, NATO's political and military initiatives, completed by the EU diplomatic and economic initiatives, aim at expanding democracy and consolidating welfare beyond the external borders of South-Eastern and North-Eastern flanks, together with their securing.

Romania's Eastern border, integrant part of the process of securing the external borders of the EU, is regularly re-evaluated in view of joining the Schengen area. In this respect, the fact that Romania's adhesion to Schengen is conditioned by periodic reports established by the Cooperation and Verification Mechanism (MCV) on "Justice" imposed by the European Commission, is subject to controversy both internally or externally, which is the theme of this institutional political analysis. The opinions expressed by the author do not engage in any way the position of the Government of Romania, institution where the undersigned is currently operating.

## **2. THE EU AS A MODEL OF SOFT POWER IN THE CLOSE PROXIMITY OF THE BLACK SEA REGION**

The terrorist attacks on the U.S.A. determined the chancelleries of the countries of the Euro-Atlantic community (NATO and / or EU members) to acknowledge the fact that the risks, vulnerabilities and threats to international security are geographically located in the Middle East and what is recently called the extended Black Sea region (EBSR). The wars in Afghanistan (2001) and Iraq (2003), the "frozen" conflicts in Transnistria and Caucasus (Abkhazia, South Ossetia and Nagorno-Karabakh), the memory of the conflicts in the Balkans, the war between Georgia and Russia (2008), phenomena like "the black swan" or Arab Spring, the Israeli-Palestinian conflict, the civil war in Syria, the threats of reactivating the nuclear program in Iran and the conflict on the Korean Peninsula are all examples that confirm the rearrangement of priorities in terms of defence and international security with an increased emphasis on the Black Sea region and the Middle East.

**Figure 1. Map of the Extended Black Sea Region (EBSR)**

Being the interface of the European, Euro-Asian and Middle Eastern security spaces and being considered part of the Soviet sphere of influence, the Black Sea region has not had the attention of the Western strategies and politicians. The dynamics of the events around the 90's has also contributed to this „ignorance”, for it has imposed other priorities in matters of global security. The extension of the fight against terrorism and organized crime, together with the dynamization of competition for energy resources and their transportation routes, has brought the Black Sea from the periphery to the centre of attention of the most important European and Euro-Atlantic organizations.

In time, the trans-Atlantic partners (U.S.A. and EU) have become increasingly concerned about the need of securing the extended Black Sea region. In this respect, a first step was taken through the second wave of NATO extension to the South-Eastern Europe, materialized in 2004 through the admission of Romania and Bulgaria in the decision-making structures of the political and military alliance. By the adhesion of the two riverside countries near the Black Sea, the aim was not only to secure the Southern Mediterranean flank of NATO (realized through the contribution of Portugal, Spain, France, Italy, Greece), but also of the South-Eastern flank (Turkey, Bulgaria, Romania) with extension

towards the Caspian Sea. Rose Revolution in Georgia and the Orange Revolution in Ukraine, encouraged by NATO and the EU, aimed the "export" of security and democracy beyond the external borders of the Euro-Atlantic community.

By securing the extended Black Sea region we understand the development of a complex and long process that requires a concerted effort from all international actors (U.S.A. through NATO, the EU through OSCE) and regional actors (the Black Sea riverside and non-riverside countries), materialized through a strategy of regional security, programs and projects that have the purpose of eliminating or reducing the risks and threats to international and regional security, to the safety of each actor that participates to this process, and also strengthening democracy and economic welfare in the geopolitical area characterized by political instability, military conflicts and underdevelopment. The European Union has been involved in securing the Black Sea region under the terms of the Common Foreign and Security Policy (CFSP), according to the Maastricht Treaty (1992), and the European Neighbourhood Policy (2003).

The creation of the Black Sea Euro-region (launched as a project in Constanta, in March 2006) represents a first step in establishing multi-sectorial collaboration between riparian states. This project, launched under the auspices of the Council of Europe (CoE), has aimed at moving from political and diplomatic interactions to concrete actions of cooperation within the Black Sea riparian countries, particularly between the local authorities in these countries. The Russian Federation, which participated to this event, refused to adopt the political declaration for establishing this region despite assurances received from the Romanian officials, that this project will not "duplicate existing initiatives at regional level", such as the Organization for the Black Sea Economic Cooperation (BSEC) or the Stability Pact for South Eastern Europe. In June of the same year, the summit for the Black Sea Forum for Dialogue and Partnership was organized under the auspices of the Romanian Presidency, in order to encourage dialogue and to stimulate reflection on the future of this region. Despite unfavourable feedback, Romania has positioned itself as "facilitator" of multi-sectorial dialogue and cooperation (economic, social, cultural, environmental cooperation) at the Black Sea, rather than as a regional leader, ambition „declined” by traditional leaders in the area, such as Turkey and Russia.

The European Neighbourhood Policy (ENP) has inspired two initiatives that are meant to strengthen relations with the neighbour countries from the Eastern and Southern frontier which were not offered the perspective to become EU members. The first initiative concerns the "Black Sea Synergy", started in 2007 during the German Presidency of the EU Council, as a result of the intercessions of Romania, Bulgaria and Greece. The Black Sea Synergy was an EU regional policy officialised in Kiev in 2008, aiming at turning to profit the opportunities resulted from the strategic location of the area, the contact with the Western Balkans, the Middle East and Central Asia. The second initiative was

launched in 2008 under the name of "Eastern Partnership" in order to promote democracy, socio-economic development, sectorial reforms (education, research, culture, youth) for the countries in the Eastern Europe and the extended Black Sea region: Armenia, Azerbaijan, Belarus, Georgia, Republic of Moldova, Ukraine. In view of organizing the Eastern Partnership Summit in 2013, in Vilnius, the partner states were encouraged to start the EU accession procedures. Through all these political and economic initiatives, the EU acts as a soft power model in the close proximity area (*Eastern neighbourhood*).

Despite these initiatives mentioned above, the extended Black Sea region remains divided along the Eastern border of Romania and also along the borders of NATO and EU in two security areas: the area of the states of the Euro-Atlantic community on the one hand, that are massive energy consumers and security providers and on the other hand, the area of the former members of the ex-Soviet region - countries that need security, but have considerable energy resources. On this geopolitical map, the Prut River, which divides the territory of the Republic of Moldova and Romania, symbolically represents the frontier that separates the two security areas and generates one of the geostrategic dilemmas of the XXI<sup>st</sup> century: security versus energy in the extended Black Sea region.

The security of the European continent is inextricably linked to what happens outside its external borders. Transnational organized crime, illegal human trafficking, illegal migration, traffic of drug, weapons, ammunition and portable vectors, the proliferation of illegal trade of radioactive and other "sensible" technologies, the expansion of terrorist networks - they all represent threats to the Eastern border of Romania and concern the security of the EU Eastern neighbourhood.

### **3. TOWARDS A REASSESSMENT OF THE RISKS AND THREATS TO THE SECURITY OF THE EASTERN BORDER OF ROMANIA AND EU**

Geographically located on a relevant transportation route towards Europe, Romania owns 2050 km of external border and 1090 km of internal borders of the EU. The diversity and complexity of the landscape along the border of our country (seaside, mountains, hills, plains, rivers, delta, etc..) determines the presence of a 1085 km land border and 2064 km water border. The Eastern border of Romania, become *de facto* an external border of the European Union starting December 7<sup>th</sup> 2001 (the time when the visa requirements were eliminated for the Romanian citizens that wished to travel to the Schengen member countries), has become increasingly important for our allies of the EU and NATO. Since that time, Romania has had to assume greater responsibilities and obligations towards securing the Eastern border.

The new external border of the EU will have to face an increasing flow of illegal labour force and other forms of human trafficking. An important part of the illegal immigration in the EU comes from this region. Before joining the EU, Romania was only a transit country for illegal immigrants to the states of the European Union, but after January 2007, it became both a "target" for a part of these illegal immigrants and the "gateway" to access the European Union. Another risk to take into account is the organized criminality networks that exist in the Eastern European countries or in their close proximity, which are operating on the EU territory. Thus, within the European Union, in addition to the organized crime groups from its member states, there are also organized crime groups from outside which are operating. Among the latter we mention: Albanian groups (drug trafficking, illegal immigration, human trafficking); Chinese groups (smuggling of chemicals necessary for manufacturing synthetic drugs, illegal immigration, credit card fraud); Russian groups composed of ethnic people belonging to former Soviet states (all types of organized crime, espionage); Romanian groups (theft, prostitution, counterfeiting of credit cards); Bulgarian groups (prostitution, counterfeiting of Euro, credit card fraud); groups of Turks and Kurds (heroin trade); groups of Nigerians, Moroccans (drug trafficking).

The frozen conflicts in the former Soviet area are pending threats to regional security. Among these, the nearest is the Transnistrian conflict in Moldova, neighbour of Romania and, since 2007, also neighbour of the European Union. On the Moldovan territory, a territorial-administrative entity that has all the prerogatives specific to a state - currency, army, institutions - exists and operates. The self-proclaimed Transnistrian Republic, not recognized by the international community, carries out an intense illegal economic and commercial activity, very well known by all the international actors. Its existence represents the foundation of the "frozen" conflict in the immediate vicinity of the EU's Eastern border. This conflict is dangerous, both by its presence and the illegal activities that various groups of interest from this territory with connections to politics, army, intelligence, organized crime are developing: money laundering, weapon trafficking, drugs and human trafficking, espionage etc.

Romania's Eastern border with the Republic of Moldova is important not only from the perspective of securing the Eastern flank of the EU and NATO, but also if we consider the bilateral relations between the two countries. By the installation of the first Moldovan Government led by Vlad Filat (2009), the political and diplomatic relations between our country and our neighbours in the East of the Prut River had been deteriorated by the conflictual approach promoted by Vladimir Voronin's communist regime. Immediately after the installation of a democratic regime at Chisinau (2009), represented by the interim President Mihai Ghimpu and Prime Minister Vlad Filat, the bilateral relations left the diplomatic conflict area and have evolved towards normality. Starting January

1<sup>st</sup> 2007, Romania has become member of the EU, which implied the introduction of visas for the citizens of the Republic of Moldova. The restrictive measures imposed by the necessity of securing Romania's Eastern border that result from the double statute of NATO and the EU members and also „Schengen” candidate, have led on short-time to a limitation of the relations between the citizens that live on the two shores of Prut River. The necessity of securing the Eastern border in view of joining the Schengen area has required a set of compensatory measures in order not to restrain the collaboration with the Republic of Moldova. The initialling of the agreement concerning the local border traffic at Romania's frontier with Moldova represents a first step in this direction. The implementation of this agreement has already been followed by the launching of cross-border cooperation projects, in this regard exploiting the financial opportunities provided by the European Union programs (for example, *Cross-Border-Cooperation*). In this context, we also have to mention the collaboration opportunities offered by the creation of the two Euro-regions: Siret-Prut-Dniester and Lower Danube.

The political crisis from Chisinau, started in December 2012, as a result of the conflict between governmental partners of the Alliance for European Integration (AEI), led to the collapse of Vlad Filat second Government (appointed on January 14<sup>th</sup> 2011) and to the installation of a period of political instability with consequences that could be materialized by the fact that the Republic of Moldova missed the association agreement with the EU. The signing of this association agreement had been scheduled to take place at a summit organized in November 2013 and the expectations regarded a relaxation of the visas regime for the Moldavian citizens and also an increasing trend of the economic relations between the Republic of Moldova and the EU. The negotiations held between the AEI partners, especially between the Democrat Liberal Party of Vlad Filat and the Democrat Party have not ended yet in a political compromise that would lead to the resuscitation of AEI and to the appointment of a new Government that would follow the European vision. The perspective of early elections brings again in the internal political game the Communist Party of the Republic of Moldova (PCRM) of the former President Vladimir Voronin and, through it, Russia's geopolitical influence not only in the internal affairs of this state, but also in the entire area. In this context, Romania was and remains interested to have at the Eastern border a neighbour whose leadership shares a European vision on the region development, not a „buffer” state at the Eastern border of the EU, connected to the interests of the Russian Federation.

The issue of securing the border between Romania and the Republic of Moldova does not resume to the dividing line between the two states. As long as measures for securing all the borders are not taken, dangers as cross-border illegal migration, weapons and drug trafficking, organized crime will continue to persist and even to increase. The region to which Romania, the Republic of

Moldova and Ukraine belong is facing a series of alarming problems, some of them having the capacity to become a danger for the stability of the region. For a durable implementation of the Schengen stipulations and in order to improve the flow of people and goods, it is necessary to build a frame of constant and regular communication between the correspondent authorities that have responsibilities at the frontiers. The objective of securing the human and goods traffic can not be accomplished unless the national authorities with responsibilities at the border cooperate, constantly exchange information regarding the problems that they face and share the same vision concerning the strategy for securing the border in order to strengthen the regional security.

One of the most serious problems, unsolved and denounced by the Brussels officials to the Romanian authorities, is corruption at the common frontiers with Ukraine and the Republic of Moldova. The corruption of the police and customs officers makes the process of securing the Eastern border of Romania and the EU vulnerable and, at the same time, it delays the adhesion of our country to the Schengen area. The force actions undertaken in the spring of 2011 by the national authorities responsible with the fight against corruption, widely spread through the written and audio-video Media, have regained the trust of Romania's European partners for a period of time.

The concept of border security has evolved and its challenges at some point are more complex and various than ever. Certainly, the general importance of the frontiers has never been bigger, due to the fact that the welfare of the entire world depends on their efficient activity. The frontiers and the border security remain a fundamental element within the international relations. Now more than ever, the quality of the state border management represents a concern not only of the state in discussion and its neighbour countries, but also of the entire international community.

#### **4. EUROPEAN REQUIREMENTS REGARDING ROMANIA'S ADHESION TO THE SCHENGEN AREA**

The Schengen Agreement was signed at the board of "Princess Marie-Astrid" ship, on Moselle River, near Schengen, Luxembourg (that named the Agreement and afterwards the area formed of the member states), at the border with France and Germany. The purpose of the Agreement between the Governments of the States of the Benelux Economic Union, the Federal Republic of Germany and the French Republic on the gradual abolition of checks at their common borders was to eliminate the control at the internal borders and to harmonize the controls at the external borders. This agreement had legal base in Title III of the Treaty establishing the European Community and was formed of 33 articles.

Currently, there are 26 countries with full rights in the Schengen Agreement: Belgium, France, Germany, Luxembourg, Netherlands, Czech Republic, Lithuania, Slovakia, Switzerland, Italy, Portugal, Spain, Greece, Austria, Estonia, Malta, Slovenia, Liechtenstein, Denmark, Sweden, Finland, Iceland, Norway, Latvia, Poland, Hungary. Among the countries that signed the Schengen Agreement, four are not EU members (Switzerland, Liechtenstein, Iceland and Norway), while two EU member states (Great Britain and Ireland) have signed agreements with the Schengen area, but do not fully apply the stipulations of the Agreement. Among the most important measures adopted by the Schengen states, we mention:

- Eliminating the internal border control and establishing a set of rules for trespassing the external borders;
- Separating the passenger flows in ports and airports;
- Harmonising the visas policies;
- Establishing regulations for the asylum applicants;
- Introducing rules regarding the cross-border surveillance and chasing for the police in the Schengen states;
- Strengthening legal cooperation through a fast system of extradition and implementation of judge decisions;
- Creating the Schengen Information System.

All these measures, together with the *Schengen Agreement, Convention implementing the Schengen Agreement*, the decisions and declarations adopted by the Schengen Executive Committee established in 1990, and also the protocols and accession agreements that followed, represent the Schengen *acquis*. At the beginning, this *acquis* was not part of the community legislative frame. Nevertheless, this has changed once the *Amsterdam Treaty* was signed, on October 2<sup>nd</sup> 1997, and entered into force on May 1<sup>st</sup> 1999. A Protocol attached to the *Amsterdam Treaty* incorporates the Schengen *acquis* within the legislative and institutional frame of the EU.

**Figure 2. Map of the Schengen Area**



Source: BBC News (<http://news.bbc.co.uk/2/hi/europe/4738063.stm>)

According to article 8 of the *Schengen Protocol*, Romania has to fully accept the *Schengen acquis*. There are two categories of provisions of the *Schengen acquis*: provisions that are not related to the elimination of internal border control (Category I, EU pre-adhesion stage) and provisions that are directly related to the elimination of internal border control (Category II, EU post-adhesion stage). The provisions of the first category must be applied until joining the EU and are not subject of the Schengen evaluation process. The provisions of the second category must be implemented and applied simultaneously with eliminating control at the internal borders and are subject of the Schengen evaluation process.

Romania has systematically prepared for the adhesion to the Schengen area in the same time with developing activities that aimed at the EU integration. The actions in this field have followed the direction stipulated by the Schengen Action Plan, a document that is annually revised within the Schengen Department

and approved by the Romanian Government. Romania's evaluation process was finalized, from a technical point of view, by adopting on January 28<sup>th</sup> 2011 the last report in the SIS/SIRENE field. The next step of Romania in the process of the Schengen evaluation is to adopt the Decision to eliminate the control at the internal borders, which will confirm our adhesion to the Schengen area. The procedure of consulting the European Parliament regarding the draft of the Decision was initiated on November 12<sup>th</sup> 2010 and the final vote concerning the adhesion of Romania and Bulgaria to the Schengen area was held on June 8<sup>th</sup> 2011, being positive. On June 9<sup>th</sup> 2011 the Conclusions of the Council regarding the finalization of the evaluation of Romania's and Bulgaria's preparation stage were adopted. After this stage, The European Union Council, under the format of the Justice and Internal Affairs Council (JAI), had to unanimously hold a vote (only the EU member states that joined Schengen) over the project of the Decision. Afterwards, it would have been published in the *Official Journal of the European Union*, the Decision would enter into force and, in the end, it would be implemented by Romania.

The adhesion to the Schengen area represents the total freedom of movement on the territory of the states that signed the Agreement. Practically, it means the elimination of control at the internal borders of the Schengen member countries simultaneously with the establishment of a single common external border where controls are being made according to a precise set of rules concerning visas, migration, asylum etc. Within the Schengen area the internal controls can be re-established only for public order or national security reasons, and the decision is taken by each member state that faces such problems.

Initially, the deadline assumed by the Romanian authorities for accomplishing this desideratum was March 2011. Despite the fact that they accomplished the technical requirements stipulated in the Schengen *acquis*, more than two years have passed since this term, since Romania is facing the refuse of the European partners to unanimously vote in the JAI Council the effective adhesion to this free circulation area. What happened to Romania's adhesion to the Schengen area during March 2011-2013 is subject of political controversy both internally and externally between the European partners (the ministers of internal affairs at the JAI Councils and the country they are representing). In addition to accomplishing the technical criteria necessary for eliminating the control at the internal border of Romania with the states that are members of the Schengen Agreement, the European partners have often referred to the necessity of respecting some political conditions, such as justice reform, fight against corruption and respect for the state of law. All these conditions have been „symbolically” brought together under the imperative of adopting two consecutive reports within the MCV on Justice that would certify Romania's progress in the field of justice independence and fight against corruption.

## **5. CONTROVERSIES REGARDING ROMANIA'S ADHESION TO THE SCHENGEN AREA**

In this section we shall undertake an institutional political analysis on the involvement of the political and institutional actors of Romania on the one hand, and the institutional partners from Brussels and the representatives of the Schengen members on the other hand, in order to clarify the stake of these controversies materialized in the delay and, more recently, the postponement of taking a decision regarding the admission of our country to this free circulation area.

In the Romanian politicians' opinion, regardless of their political belonging, the admission to the Schengen area represents one last step for rewarding Romania's efforts towards the Euro-Atlantic integration and, at the same time, the finalisation of the European vocation of our country. During the period that has passed since the collapse of the communist regime in December 1989, there were few objectives of national interest that gained the consensus of the Romanian political elites. The three admissions – to NATO in 2004, to the EU in 2007 and the Schengen admission that was thought to happen in 2011 – have been by far the external political targets through which Romania was being reintegrated in the Euro-Atlantic area from where it had been excluded as a result of the geopolitical arrangements after the Second World War. Through the „three admissions”, Romania would gain back the history, values, the short inter-war democratic experience, having the perspective of the welfare and territory security guaranteed by the U.S.A. and its European partners.

During all the periods of pre-admission to the three structures (NATO, EU, Schengen), internal controversies appeared among the political powers that belonged to the Power or to the Opposition regarding the dynamics of the registered progress, the efficiency of the implemented measures and the interpretation of the „signals” that were being sent by our external strategic partners. There were also delays, political and administrative blockings, reproaches inside and outside the Government or from the external partners of Romania. Nevertheless, after a retrospective analysis of the various positions of the political internal institutional actors, the admission or, in better words, the postponement of the Schengen admission has generated the most important disputes.

Currently, the „Schengen file” represents a failure both for Romania and Bulgaria, but also for the countries that are already members of the Agreement. As for our country, the first political „signals” were received by the Romanian authorities in the summer of 2010, when the French president Nicolas Sarkozy and his minister Pierre Lellouche were among the first European officials that stated the possibility to postpone the admission of our country in the situation of the scandal generated by the repatriation of the Roma that had come from Romania. Our country was accused of corruption, especially at the borders,

which allowed an illegal flow of emigrants, while to our neighbours in the South of the Danube they imputed the modest efforts in the fight against organized crime which generated victims even among the most high officials.

For the two neighbour countries, the „finishing stroke” came in the autumn of 2010 as a common letter from the French and German internal affairs ministers, a letter sent to the European Commission in which they stated that the adhesion of Romania and Bulgaria would be „premature”, due to the fact that they had serious problems regarding justice and internal affairs, corruption and organized crime. In terms of time, this was the moment when the Schengen adhesion was connected to the Mechanism for Cooperation and Verification report, a connection that both Bucharest and Sophia have repeatedly contested until (March 2013) they had to accept this political conditioning in addition to the Schengen *Aquis*.

In order to avoid the failure of this ambitious objective of external politics, Romania has started a political and diplomatic effort in order to persuade the European partners regarding the certainty in accomplishing the technical criteria in accordance with the Schengen *aquis* and the effective progress in the fight against corruption. Special Forces descents at the external border crossing points, assisted by anti-corruption institutions in the spring of 2012, seemed to be able to convince the Schengen member states to reassess the performances of Romania in terms of security at the Eastern border that would also become a Schengen border. "Dice had not been cast," and therefore there was room for negotiation with the states that had publicly upheld their position against the adhesion of Romania and Bulgaria. France had re-evaluated its position after a visit of the Romanian Prime Minister Victor Ponta at Paris where he had had a meeting with the President Francois Hollande, member of the same socialist family. Thus, only Germany and Netherlands were left and they had to be convinced through diplomatic channels still available. When things seemed to have got back on track, once again Netherlands, followed by Finland, has firmly stated its position for postponing the adhesion to the Schengen area. The MCV reports on Justice, here and there negative, have been mentioned by Germany, Netherlands and Finland for officially supporting their position of rejection. Off the record, there were discussions regarding the impact of the political events in the summer of 2012 on the European perception concerning the functioning of the rule of law in Romania, with an emphasis on the compliance with the decisions of the Constitutional Court and regarding the way that the justice independence is being ensured despite any political interference.

In the following part we shall analyse the position of the political and institutional actors of Romania in relation to the conditioning of the adhesion to Schengen by the MCV report on Justice, in order to emphasize the lack of internal political consensus regarding this political mechanism.

**Table 1. Attitudes of political elites of Romania regarding the postponement of the Schengen adhesion**

Institutions/ Political actors/ Political elites	Before the co-habitation President-Prime Minister (until the legislative elections in 2012)	After signing the co- habitation agreement President-Prime Minister (after the legislative elections in 2012)
Presidency	Critical approach concerning the MCV conditioning for Romania's adhesion to the Schengen area.	The presidency agrees joining together the accomplishment of the technical criteria from the Schengen <i>aquis</i> and the MCV.
Government		Critical approach regarding the conditioning of Romania's adhesion to Schengen by the MCV.
Parliamentary majority		
Political parties in Opposition	The Parliamentary Opposition criticizes the Government for postponing Romania's adhesion to the Schengen area.	The Parliamentary Opposition represented by PDL and PP-DD decides to propose a simple motion regarding the postponement of Romania's adhesion to Schengen (March 11 <sup>th</sup> 2013).

According to the table above, during the „postponements” of Romania's adhesion to the Schengen area (March 2011- March 2013), there has not been consensus among the Romanian political elites (governmental and non-governmental) regarding the conditioning of connecting the MCV with the compliance of the technical criteria stipulated in the Schengen *Aquis*. The Governmental elites responsible both technically and politically for the Schengen adhesion project have adopted critical positions in relation to the European partners, disapproving the connection of the MCV with Schengen, while the non-governmental elites (especially the Parliamentary Opposition) have criticised the Government first of all for the inefficiency of the diplomatic solutions in relation to the countries that are members of the Schengen area (France, Germany, Netherlands, Finland) that publicly supported the postponement of Romania's and Bulgaria's adhesion to this free circulation area. Moreover, the synthetic presentation of the positions of the main political and institutional actors underlines the inconsistency of the Presidency which, until the installation of the Governments led by Prime Minister Victor Ponta (May, December 2012), has

adopted a critical position especially in relation to Netherlands, and afterwards it has agreed the Schengen adhesion to be conditioned by the MCV.

The political actors from Romania who, regardless of their political belonging, the institutional constraints, the administrative responsibilities for implementing the Schengen project, have adopted at some time a critical position in relation to the European partners – member states of the Agreement - have motivated their points of view publicly stated by the fact that, in some European states, there are some populist trends regarding issues like: illegal migration, the problem of the Roma people that come from Romania and populate outlying areas of the European cities, generating criminality and related phenomena. Therefore, it is suggested the fact that the postponement of Romania's adhesion to the Schengen area is an answer to some expectations of voters in some European countries (France, Germany, Netherlands, Great Britain) in relation to the problem of the lack of jobs, illegal migration, criminality generated by groups of Roma. Obviously, these positions of the internal political actors could be the subject of „reverse key” interpretations, this being the explanation and reason of the problems pointed out in the MCV reports of the European Commission.

At the JAI Council on 7-8 March 2013, a decision regarding the adhesion of Romania and Bulgaria was postponed and rescheduled for October 2013 for the land and sea frontiers and in 2014 for the air borders. Although the Schengen topic was added to the JAI Council agenda, the consensualization of the position of the Romanian Presidency and Government according to the „cohabitation agreement” signed by President Traian Basescu and Prime Minister Victor Ponta determined the internal affairs ministers of the Schengen member states to avoid voting in this regard. One negative vote (the JAI Council decisions are adopted unanimously) would have meant a re-evaluation of the compliance of the technical criteria stipulated in the Schengen *Aquis*, both for Romania and Bulgaria.

Despite the internal and external controversies generated by the file concerning the adhesion of Romania and Bulgaria to the Schengen area, a certainty remains the concern of the Government of Romania to accomplish this objective of national interest. Currently, the external Eastern border of the Schengen area is found on the Hungarian-Romanian frontier, while the Eastern border of NATO and EU is common in the East, located along the river Prut, which divides Romania and Moldova.

## **CONCLUSIONS: INSTEAD OF CONTROVERSIES**

Romania's strategic objective is to move the external border of the Schengen area to the Eastern border, common with the border of NATO and the EU. Obviously, this would mean a tremendous responsibility for Romania regarding the security and continuous securization of the Eastern border that

symbolically divides the two security areas: the Euro-Atlantic area and the ex-Soviet area. In this regard, it is absolutely necessary to eliminate any doubts concerning the priority of the actions of the Government, Parliament and Presidency in order to join the Schengen area.

The Romanian political elites can not afford conflictual approaches concerning the Schengen file in the European context marked by economic and financial uncertainty, affected by serious social problems such as unemployment and the lack of jobs. The adherence to the Schengen Area is not the only external politics objective of Romania as a developing country. The adherence to the EURO area is Romania's „forth admission” that is taking shape among all the efforts of integration in the Euro-Atlantic area.

When Romania effectively joins the Schengen area, with all the land, sea and air borders, this will generate a powerful pressure in terms of security and securization of the external borders of NATO, EU and Schengen that will be common with Romania's frontiers. The security of the EU and NATO's strategic partners will fundamentally depend on the way the custom-house and police authorities of Romania, in collaboration with those from Bulgaria, will meet their obligations. At the same time, Romania's adherence to the Schengen area will also lead to a re-evaluation of the relations with the citizens that come from the Republic of Moldova and from the former Soviet area. Obviously, the resettlement of a pro-European Government at Chisinau improves the perspective for the Republic of Moldova to sign the EU Association Agreement, together with Ukraine, which would avoid creating a „buffer zone” at the Eastern border of Romania.

The inclusion of the Republic of Moldova and the riparian and non-riparian countries from the extended Black Sea region in the Euro-Atlantic security area remains a political and geostrategic desideratum of the Western chancelleries. In this project, Romania has to play a role of strategic „facilitator” in relation to the NATO and EU partners and to the other states from the extended Black Sea region that are interested in creating an area of peace, security and mutual prosperity in this part of the world.

## **ENDNOTES**

Data obtained from the official web-site of the General Inspectorate of Border Police [www.politiadefrontiera.ro](http://www.politiadefrontiera.ro).

The International Organization for Migration (IOM) estimates that, of a total of 130 immigrants per year, between 20 and 40 millions travel illegally, meaning that every second, 4 million people have the immigrant statute. Five hundred thousand people enter the U.S.A. every year and other 500 thousands in Europe. This traffic could generate profit equal to 3 to 10 billion dollars.

Art. 4 (1) and (2) of the *Treaty of adhesion of Romania to the European Union* makes the distinction between the provisions that are not related to the elimination of the internal border control in the member states, applicable to Romania since the adhesion and the provisions directly connected to the elimination of the internal border control in the member states that apply only based on a decision adopted by the Council in this regard.

The Schengen Department within the Minister of Internal Affairs was established through Governmental Decision no. 1317/ 2007 in order to operate as national authority in the field, which coordinates and monitors the accomplishment of all the necessary conditions for fully apply the provisions of the Schengen Agreement 1985, concerning the gradual elimination of the common border control and the application of the Convention, and also of the other provisions specific to the Schengen acquis (<http://www.schengen.mira.gov.ro>).

*According to Schengen Department*

(<http://www.schengen.mira.gov.ro/index07.htm>, (the last access on the site in March 2013).

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# ROMANIA AND THE SCHENGEN FILE: BETWEEN IMMIGRATION AND HUMAN RIGHTS

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**Abstract:** *The purpose of our article is to assess Romania`s future entrance into the Schengen Area connecting two variables: the EU`s immigration policy and the protection of European citizen human rights (as they are stated by the Fundamental Rights Charter included in the Lisabona Treaty). The focal point of our contribution will try to emphasize how ethnic migration, having a case study on Roma, affects the regional dynamics of a firmly regulated `Area of Liberty, Security and Justice`. Our approach underlines that there is direct connection between the impact of future waves of migration upon the actual states within the Schengen Area- their domestic policies- and their future policy positions withing the EU. This article aims to demonstrate how there has been created, at the political level, a connection between the ethnical emigration and Romanian`s entrance in Schengen Area.*

**Keywords:** *Schengen, immigration policy, minority lobby and advocacy, EU policymaking.*

## 1. SCHENGEN PANORAMIC, FROM ITS EARLY RISE TO ITS MODERN INSTANCES

Even since the creation of European Communities in the 1950s, the European states desired a more broaden integration process, which should be practically managed through a set of four main liberties, namely: for goods, servicies, capital and persons within the borders delimited by the EU member states. The Schengen Agreement is the most important example for

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<sup>1</sup> This work was possible with the financial support of the Sectoral Operational Programme of Human Resources Development 2007-2013 , co-financed by the European Social Found, under the project number, POSDRU/107/1.5/S/76841 with the title „Modern Doctoral Studies: Internationalization and Interdisciplinarity”.

integovernmental decision-making towards police cooperation, border and immigration policy.

Schengen Agreements are a part of this easing of the access strategy that should be accomplished through a more intense communication framework on border control, visa regulations and migration issues. Beside this border opening movement towards the EU member citizens, the EU countries have also designed plans to accommodate third party citizens, from the non-EU member states.

In the 1980s a further step was taken, when the proposal of eliminating border controls among the EU communities was emphasized. That included the establishment of a passport and visa system for those outside the EU member states area. Benelux states have offered an example for this cooperation framework when a common passport system was implemented among them in the 1970s. The bilateral agreement between France and Germany in 1984 was another milestone for this process of opening the borders and easing of access policy.

The Schengen Agreement was signed by France, Germany and Benelux states on June 14th 1985. The Agreement established a common frontier for all the states and the removal of passport and border controls among the members, five years later the Schengen Convention is signed in order to delimitate this common area on a practical level.

Schengen Convention has new provisions towards visa and border policies. The visas were granted for short periods of time (a maximum of 90 days). The principles and rules that were applied at borders were harmonized, but still the vast majority were circumscribed to national legislation and sovereign attributes.

In the 1990s new states such as: Italy (1990), Portugal (1991), Spain (1992), Austria (1995), Finland (1996), became part of this Schengen Agreement. Another wave of Schengen Area enlargement included: Norway, Sweden, Denmark and Iceland, out of which Denmark has reserved the right to apply or not the provisions derived from the Schengen Agreement.

At the Schengen Convention in 1990 the base for Schengen Information System (SIS) was laid. The purpose of this system was to create a large integrated data base for all member states. This should contain information about: foreigners transiting their territory, asylum seekers, persons under criminal investigation. (Zaiotti, 2011, p.94) The establishment of this system was made especially for security reasons, allowing close cooperation between services entrusted to preserve public order within the member states, but also throughout the Schengen Area.

The implementation of Schengen Agreements took place in 1995, as a consequence of the changes in transport infrastructure of each member state. The impact of this liberalization was translated into creating new airport terminals for citizens belonging to this area, eliminating additional controls in case of train transportation and many other advantages that were a boost for future changes.

## 2. SCHENGEN'S PECULIARITIES AND ITS INTEGRATIVE VOCATION

Schengen Area has introduced a new visa system for citizens from non-EU countries, the main advantage being the fact that you could use just one document to visit all the states during an interval of 90 days.

Beside the fact that Schengen eliminates internal borders, its accession also requires:

- Common rules towards free movement of persons, asylum and immigration
- Extended Police cooperation (the capacity of pursuing the suspects in other member states), the protection of public order and security
- Common lists with the states and persons that require visas
- A more flexible transport infrastructure for member state citizens
- Common efforts towards border crime fighting, drug and people trafficking, or illegal entry
- Schengen Information System (Official Journal of European Communities, 2000, p.139)

In September 1997 the Dublin Convention entered into force, offering a new set of rules for those who requested asylum rights. In 2003 Dublin Regulation provided the technical and data support in order to assist the state that receives asylum applications regarding third country citizens. There have been some cases when border controls have been reinstated.

The Schengen Area had a huge impact upon migration policies or asylum rights, although these policies are directed also from the EU's institutional core. The Amsterdam Treaty has formally incorporated the Schengen Area (together with its rules and principles) in the so called *acquis communautaire*.

This *acquis* will include all agreements: starting with the Schengen Agreement, signed in 1985, the Schengen Convention (1990) and all the documents that helped their implementation process to be a success. After the Amsterdam Treaty came into force, the Council has replaced the Schengen Convention Executive Committee, giving a 5 years deadline to adopt the necessary measures to facilitate the free movement of persons.

The transfer of some cooperation aspects within Justice and Internal Affairs has determined The Court of Justice to assume new competences. Starting from Amsterdam Treaty (1999) the decisions concerning Schengen area are taken by EU Council of Ministers.

For the 2004 enlargement wave Schengen rules and regulation became compulsory. There are some EU member states, Ireland and the United Kingdom, that don't belong to the Schengen Area, which opted to accept the rules that compose the Schengen *Acquis*.

States entering the EU in 2004 had to implement the Schengen Information System and to develop a professional border protection system. In 2005 the Swiss government has obtained through referendum the permission to join the Schengen Area. Just because the progress of this system was rather slow, Portugal has advanced a new proposal that meant the rise of SIS 1+, also known as SISone4all.

This system was developed as an alternative, in order to accommodate the numerous enlargement wave of 2004. As a result of Schengen enlargement, the European Council has established new directory lines for the second generation of the Schengen Information System (Schengen II). This system should have been implemented by 2007, offering more elaborate information for the European citizens.

Beside SIS II, other two databases have been developed: Eurodac and VIS (Visa Information System). Eurodac development dealt with immigration and border control and it was established at Dublin Convention in 2003. VIS stores data on every visa application including also the response provided by each member state for the applications (Brower, 2008, p.2).

In 2005 a series of states such as: France, Germany, Benelux, Spain and Austria signed the agreement that established Schengen III. The major purpose of this agreement was cooperation among member states in order to prevent and fight against terrorism. This third generation of Agreements is not yet part of the Schengen Aquis, but there is a great likelihood for it to be extended upon the entire EU framework.

### **3. A GUIDING BEACON IN A WORLD WITH GREAT CHALLENGE AND HIGH DOMESTIC POLICY DEMANDS**

Although there are common rules and regulations towards the Schengen Area Accession, member states are not obliged to welcome everyone who meets these conditions ( Kabera Karaja, 2008, p.52)

The Schengen Convention does not distinguish between Schengen area citizens and those of the EU. In its first article the Convention defines the notion of foreigner. The foreigner is a person, other than the citizens of the EU member states. That means that every EU citizen should have same rights, like any other member, even if he/she is a member or not of this Schengen Area.

The right to asylum is stipulated in articles 28-38 of the Convention. People applying for asylum have only a chance to obtain it. In case the asylum right is rejected by any of the member states, no other state has the right to receive that person's asylum file. These rules have been established within the framework of the Dublin Convention (June 15<sup>th</sup> 1990), so for a person who had its asylum file rejected it would be difficult to remain within the Schengen area or on a member state territory.

“The abolition of internal land and sea borders seems to have prompted the emergence of new forms of control. The reorganization of border patrols, together with the emphasis on enhanced police cooperation and finally the obligation to comply with complex administrative requirements have in fact led to a multiplication of alternative, functional borders.” (Agter, CP 008, p.18)

In this respect, the states within the Schengen area have established a series of cooperation policies. Probably one of their best is police cooperation. The convention establishes 3 main forms of police cooperation: information exchange, pursuit and discreet surveillance. If information exchange doesn't have major consequences upon national sovereignty, the other two represent operational instruments, far more difficult to manage by the member states. This Convention also stipulates: cooperation and mutual assistance on criminal law, extradition policies and transfer application of the criminal justice act.

The Schengen Area entrance is a step by step process, a reason why the bilateral agreements signed with new member states are decisive for maintaining the internal balance. Beside periodic reports from the Commission and the Council, member states together with states scheduled for accession must inform the EU institutions about very measure taken.

Western countries' reluctance towards the last wave of accession (for Romania and Bulgaria) is the result of some incoherent policies and of some incidents that affected the profile and credibility of these two new candidates. Despite the fact that on a technical and logistic level we have done our homework, the final decision is fundamentally dictated by political rationalities, although we even followed the accession calendar.

Public anxieties regarding irregular migration have recently augmented and this led to further controversies among member states. Examples in this respect are France and Italy in 2011, when, due to the so-called Arab spring, a large amount of Arab immigrants from MAGHREB entered the EU via Italy. The result was a call for Schengen reform at the Rome summit.

Hugo Brandy (2011) discusses about a potential “Schengen's Black Swan Moment” in 2012, due to Greece's failure to control the frontier with Turkey, “the source of most illegal entries to the passport-free zone”. Furthermore, according to the same researcher, Bulgaria's own border with Turkey and the harbor in Constanța should be taken into consideration when it comes to Romania's and Bulgaria's accession.

It is, after all, the governmental (in)activity and their responses to policy reports that matter most. It is worth analyzing how the latest Schengen response from March 2013 was interpreted by the political actors of two countries under discussion, Romania and Bulgaria. It all seemed to have turned into a ‘blame-it-on-the-other’ game, where the European idea of ‘unity within diversity’ does not matter any longer. Furthermore, instead of augmenting the feeling that the two

countries should collaborate more with one another in terms of internal borders, fight against terrorism and corruption, competition and conflict arise.

#### **4. THE CHARTER OF THE FUNDAMENTAL RIGHTS - A PREREQUISITE FOR A HEALTHY MIGRATION POLICY**

Through the general programme entitled “Solidarity and the Management of Migration Flows”, member states are offered financial support for exposure to migration flows, by means of four instruments, namely: the External Borders Fund, the European Return Fund, the European Refugee Fund and the European Fund for integration of third-country nationals. Almost half of the total amount of approximately 4 billion Euros is allocated for the first one, the issue of external borders.

Within the Treaty of Lisbon, the Charter of Fundamental Rights was integrated, for a better application of the human rights within the EU territory. In order to accomplish that, the role of the European Court of Justice was consolidated, this institution being more capable of influencing other organizations that should grant for human rights. The Charter contains more than fifty fundamental rights, stemming from various sources; it addresses both the EU institutions and member states, being highly relevant in terms of community law.

What the Lisbon Treaty also proposes with regard to free movement, asylum rights and immigration policy is the fact that it diminishes the decisional capacities of the national state, which, up to that point, had many privileges and immunities.

The Opt-out option that was available for some states such as: Poland and The United Kingdom is somehow limited. As a consequence, the states that refuse submission to the EU rules and regulations will have to respond more often in front of the European Court of Justice. The necessity of respecting the Charter of Fundamental Rights combined with vote by qualified majority leaves almost no alternative to the national state.

We cannot understand the liberty of movement in the EU without a system of integrated border management. The first step towards achieving this goal is connected with the EU Commission’s resolution to the Council and Parliament “Towards a more integrated external border management” in 2002. Furthermore, another key moment for this process is the establishment of a border management system determined by the EU Parliament and Council decision. Through this decision, the EU has established the fund for external borders 2007-2013, as part of Solidarity and Management of Migration Flows concerning visa policy.

## 5. CASE STUDY: THE ROMANIAN ROMA IN THE „SCHENGEN FILE”

In the paper entitled *The Power of the Powerless*, Václav Havel, former president of the Czech Republic, considered that “the strength of a democracy can be measured by its policies towards Roma” (Manea, Paraschiv, 2009, p.1). This category occupies a leading position on the European political agenda and is an actual theme of various seminars, reunions and projects of the political actors, especially in the context of the economic crisis and in electoral campaigns.

Globalization and the economic crisis have created, at least at the discursive level of the EU, interdependence between ethnic minorities, migration and security, with wide international reverberations at various levels, be they economic, social, political or cultural.

This complex interdependence also lies at the basis of our case study on the analysis of Roma as perceived in the Romania’s Schengen file. It must be stated from the very beginning that in European documents Romania’s Schengen accession is in no way related to the Roma issue. Still, this question is often evoked as the main reason of continuous rejection. The Romanian politicians mention this Roma issue as an excuse for their inability to fulfill their political obligations at European level and other EU policymakers opposing Romania’s and Bulgaria’s Schengen accession call it “an undesirable political situation” (Mediafax, 2010) that requires urgent solution.

In the context of the European negotiations regarding Romania’s Schengen accession (officially started right after Romania became part of the EU), the Roma issue became a burning one in national and international media, after every postponement of this process, the climax being reached at the JHA Council on September 22<sup>nd</sup> 2011, when the Netherlands and Finland opposed Bulgaria’s and Romania’s Schengen accession. Their decision is traced back to the report of the Cooperation and Verification Mechanism, with emphasis on Roma issues and customs corruption.

From this moment, the interdependence, at the discursive level, between Romania’s accession to Schengen and the Roma issue (perceived as a security threat, due to the great number of immigrants from Eastern Europe to Western countries) becomes a leitmotif and a pretext for the Western countries to put pressure on Bulgaria’s and Romania’s Schengen file. It is for the first time when some countries’ accession to the Schengen area is conditioned, in discursive and political terms, by the implementation of a solution regarding the integration of an ethnic minority. “We have no basis to establish a legal connection between the two issues (Roma integration and Romania’s accession to Schengen), but if Romania does not present a plan on Roma integration, this will impact on each and every one of us” (Realitatea, 2010), warned the State Secretary for European Affairs Pierre Lellouche. Three years after, in 2013, Romania’s Prime Minister,

Victor Ponta, declared (after a further delay and a negative CVM Report) that "our Schengen issues are as follows: "the situation of Romanians and Bulgarians that shall bring more competition on the labour market; from here the question of unemployment in the EU and the resident question of the Romanian capacity to better integrate the Roma community". (BITV, 2013).

Hence, both at national and international level, the political discourse refers more and more to migration (especially to that of vulnerable groups: unqualified workers and Roma people) and to the potential economic, societal and cultural threats this phenomenon may lead to.

The connection between the migration of minorities and security was analyzed in the book "Security- a New Framework for Analysis", according to which "minority, nation and European issues led to a complex constellation of multi-layered identities [and in this context] one can claim that the future of European integration and, further on, of security, is widely determined by that of this constellation". (Buzan, Weaver, de Wilde, 2010, p.188). Starting from this relation, the EU's Eastern widening and the economic crisis have turned migration, especially the irregular one, into an issue that affects all five security sectors identified by the representatives of the Copenhagen School.

In this equation, the Roma (as socio-economically vulnerable ethnic minority) are "*perfect scapegoats*". Without a mother-state, embassies or consulates to protect their rights, they are at the hand of policy makers as objects of experimental social integration strategies or subjects of election campaigns (see French presidential elections of 2012 or the 2013 general elections in Germany). Pushing blame for a negative situation onto a weaker target makes the aggressor feel more powerful, less guilty, less sinful, and allows for frustration to be released.

Fear of immigrants in general and fear of Roma immigrants in particular (as discursive element) appeared and developed in Western European countries due to excessive mediatization of tensions and violent incidents between immigrants and the majority population (for instance the Mailat case from Italy or the Romanian Roma situation in France in 2010 and 2012). Adrian Favella believes that the Western fear of the Eastern European immigrants is unjustified because: „*East-European migrants are in fact regional 'free movers' not immigrants and, with the borders open [a se intelege spatiu de libera circulatie], they are more likely to engage in temporary circular and transnational mobility, governed by the ebb and flow of economic demand, than by long-term permanent immigration and asylum-seeking*" (Favell, 2008, p.703).

On the other hand, with a coherent social policy and a higher degree of tolerance, the Roma population may represent to Western European countries, a cheap labor, especially in agriculture and the construction sector where professional training and experience is not required.

According to a recent research, made by the World Bank, in 2010, on the costs of Roma exclusion from the labor market, results showed that “*European countries are losing hundreds of millions of Euros annually in productivity and in fiscal contributions to the government’s*” (for example Romania’s annual productivity losses range, estimated for 2010, was of 887 million Euro and annual fiscal losses range, estimated for 2010, was of 202 million Euro) Full Roma integration in the labor market could bring economic benefits estimated to be around € 0.5 billion annually for some countries (World Bank, 2010, p.1).

The study concludes that these losses can be avoided only through a coordinated inclusive policy focused on the main problems the Roma population is facing, such as access to quality education and health services, identity documents and housing.

Currently, in the European Union several programs, projects and initiatives are ongoing (e.g. the *Decade of Roma Inclusion 2005-2015*, the *Millennium Development Goals* or the *Joint Inclusion Memorandum (JIM) 2005-2010*) aimed at reducing economic disparities between the majority population and the Roma minority and social inclusion and promoting social inclusion in order to reach the overall targets of the Europe 2020 Strategy (*75% of the population aged 20-64 to be employed*) (COM, 2011).

*“Despite some good intentions from national politicians, too little has changed in the lives of most Roma over the last few years,”* said Vice-President Viviane Redding, the EU’s Justice Commissioner. *“Member States have a joint responsibility to put an end to Roma exclusion – from schools, jobs, healthcare and housing. This is a serious challenge”* (COM, 2011). It remains to be seen whether the European Union as a regional economic, political, social and cultural actor will be able to assume the leading role in this project.

The motivation for this “*international social-political war*” with Roma is not based on contradictory and incompatible cultural values between them and the majority populations they came into contact, but on inconsistent Roma legislation in European countries (especially in social inclusion) and their indecisive and authoritarian measures (Manea, Paraschiv, 2009, p 2).

## CONCLUSIONS

Romania’s accession file into the Schengen Area is a heavy politicized matter that still needs great attention not only from our leading elite but also from the civic society. In terms of domestic policy and balanced governing within the EU, many states have been very vocal towards granting the rights circumscribed in the Fundamental Rights Charter.

Despite of the obvious progress registered so far, that meant large scale qualified majority voting system and a more strengthened role of the Charter, there is little to be obtained without political will. Common standards and

proactive inclusion methods are desired in order for Europe to regain its balance, in terms of how we perceive the migrants or how we treat a foreigner.

From all aspects analyzed above, it can be stated that Romania's and Bulgaria's Schengen accession is the first one that faces so many problems and reluctant answers. Furthermore, solving the minority, especially Roma issue has turned- at least at the level of the political discourse, into a sine-qua-non condition for accession. In this respect, the desired collaboration between these two countries seems to have turned into a 'blame-it-on-the-other game', augmenting competition and conflict. Instead of finding solutions for improving further CVM reports and, implicitly, for accession to this area, political leaders keep on accusing the others, especially the weaker ones, the minorities. Therefore, the Schengen issue also becomes a Roma issue, sometimes acting towards discrimination and against the principles of human rights.

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# LIBERALISATION OF THE WORKFORCE IN THE EU AND THE IMPACT OF REMITTANCES ON THE ROMANIAN LABOUR MARKET

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**Abstract:** *International migration is an ancient phenomenon that lasted to this day at all qualitative and quantitative levels as a result of the influence of a sum of subjective and objective factors that are currently interfering with the components of the globalising process directly. The Romanians' external migration is a deeply rooted process in the history of our society. This process has been in continuous development for the past 20 years and, once Romania joined the European Union, it has grown in size both at the level of permanent and temporary migration of the workforce. During this period, Romania had many social and economic problems such as: the decrease of economic activity, the population's poverty, increase of unemployment and inflation, corruption and last, but not least, the population's external migration. This migration phenomenon for employment had not only positive effects for immigrants and their families, but also negative ones shown on the labour market and national economy. As we are interested in the effects that migration had on the labour market, in what follows, we decided to conduct an econometric analysis on the impact of migration on the labour market exerted via remittances. To be more precise, we will tackle the extent to which remittances contributed to the decrease of employment in Romania.*

**Keywords:** *migration, labour force, unemployment, remittances, investments, human capital.*

## INTRODUCTION

Workforce migration at the level of the European Union is a complex phenomenon with various economic effects. Since 2007, when Romania joined the European Union and adhered to a common area with free movement of labour, there have been significant changes in the domestic labour market. In the first years after accession, many young people chose

to leave Romania to work in countries such as Spain, Italy and more recently England. Initially, the departure of immigrants may affect the economy of the country of origin, in case those immigrants had a workplace and the offer on the labour market does not allow their replacement with equally paid employees. If the work offer is low and the employer needs to increase salary levels to attract new workers meant to replace immigrants, the level of production could remain the same unless the employer lowers the profit margin (the other two solutions that big companies usually resort to are relocalization or technology update to improve efficiency and work substitution). Moreover, the immigrants' departure determines a shift of the demand of goods and services from the country of origin to the country of destination, that they would have made use of if they had remained in their home country. However, after immigrants reach the country of destination and are employed, they send money home to their families. If the amounts received are as higher as the salary that the immigrant would have won if he or she had remained home, then the increase in goods and services is higher, reaching the same level it had before immigration, and remittances compensate for the initial negative effects of immigration. Further on, the extent to which remittances may stimulate economic growth depends on the way in which they are used; to be more precise, they aim at consumption or investments.

Thus, if the effects generated at the macroeconomic level depend on many factors, at the microeconomic level, the situation is much clearer. Without a shadow of a doubt, workforce migration is an attractive solution with great benefits, otherwise it would not have been implemented. The decision to immigrate was taken by the individual or his or her family after a cost-benefit analysis. If the immigrant decides to immigrate, his or her decision is motivated by the fact that better opportunities are to be found abroad (voluntary migration). This is also the case of the Romanian immigrants. Several sociological studies carried out so far showed that the main reason for immigration was the precarious financial situation in Romania (see, for instance, Bleahu, 2004, p. 23-24; Lăzăroiu, Alexandru, 2008, p. 232; Cucuruzan, 2009, pp. 216-217; Sandu, 2006b, p. 60).

### **Migration, Remittances and Unemployment**

As we are interested in the effects that migration had on the labour market, we decided to carry out an econometric analysis on the impact of migration on the labour market exerted via remittances. To be more precise, we will test whether remittances contributed to the decrease of unemployment or not; as mentioned above, remittances may reduce unemployment directly when they are targeted towards investments or, indirectly, through the multiplier effect (when they aim at consumption), as a result of the increase of goods and services

and of the workforce, respectively in order to increase production. As the Romanian transition process after 1989 incurred a large process of privatisation and, implicitly, restructuring, unemployment became a real problem during this period. As a result, the study proposes to assess whether migration and remittances respectively managed to lower the level of unemployment.

The main limit of this study is related to the exactitude of the data it employs. For instance, as our analysis tests the impact of remittances on unemployment, it is worth mentioning that the series of data employed for remittances contains only the formal component of real flows recorded by bank accounts and money transfer agencies, respectively. However, remittances also include an informal component that cannot be assessed (for instance, the amounts sent via friends or regular transportation means). In other words, the impact of remittances may be a significant one.

Secondly, we need to consider the fact that migration is a mainly social phenomenon based on people's behaviour which renders any change of context influential on this behaviour, making it unpredictable. For instance, if taxes for sending remittances through money transfer would boost, more and more immigrants would give them up in favour of informal means. And, although the data used show a decrease of remittance flows, they have actually gone up (as the amount of transfers by informal means increased, as well). Aware of the fact that we can never consider all the factors involved, we remained reserved as far as the results obtained are concerned.

The models proposed for the econometric analysis are the following:

**Model:**  $\text{unemployment} = f(\text{remittances}, \text{salary/ human capital}, \text{investments}, \text{public expenses})$ ;

$\text{unemployment} = f(\text{remittances}, \text{GDP})$ .

Considering the fact that various econometric analyses confirmed the results obtained by sociological studies, showing that remittances may contribute to the increase of investments in the country of origin (see Giuliano and Ruiz-Arranz (2005), Jongwanich (2007) or Litan (2009)) or consumption (see Mallick, 2008), we believe that remittances have an important potential in reducing the level of unemployment through the increase of the workforce demand. Having in view the consistent remittances flows directed to our country, we consider that *remittances contributed to the decrease of the Romanian unemployment* – **first hypothesis**.

Investments are one of the major factors that contribute to the creation of new workplaces, hence the decrease in unemployment. As a result, we are waiting for investments to have contributed significantly to the decrease of unemployment – **hypothesis 2** – *investments contributed to the decrease in unemployment*.

Economic theory supports the fact that the state could increase workforce demand directly, by extending public expenses (for instance, in public or

healthcare education) or, indirectly, by improving the business environment. Therefore, in our opinion, we will be able to identify – **hypothesis 3** – *the existence of a negative connection between public expenses and the level of unemployment*. Yet, Romania's case is different as the period of transition involved a large privatisation process, leading to a diminution of public expenses; but this process was a slow one, its slowness owing to political resistance. Moreover, public expenses have been used to hide economic inefficiency, covering many subsidies given by the Romanian state to agriculture, industry so as to keep the unprivatised “economy's giants” alive in the middle of the 90s.

*Salary* is one of the most important variables on the labour market. As more and more Romanian companies have been privatised, this variable regained its important role in the confrontation of offer and demand on the labour market within a market economy. Therefore, we expect the results to point out – **hypothesis 4** – *a strong negative relation between the level of salaries and unemployment*. In order to avoid endogeneity problems, we avoided the inclusion of the *salary* and *human capital* variable on the same side of the equation, thus implying a tight positive relation between the two variables.

*Human capital* is also one of the factors that may contribute to a drop in unemployment. The more educated a workforce, the easier to adapt to the changes on the labour market or even change profession, if necessary, thus reducing unemployment. Expressed as a *rate of the population enrolment in high school*, we presume – **hypothesis 5** – that *the improvement of education level contributed to a drop in Romanian unemployment*. Certainly, remittances may have a role in this sense, supporting the expenses incurred by education.

In order to test the validity of the model, we considered another variant of equation, introducing *GDP* as an extra exogenous variable. To avoid endogeneity problems, as *investments*, *public expenses* and *human capital* are considered factors that contribute to economic growth, the *GDP* variable could not be introduced in the same equation. We expect – **hypothesis 6** – *a negative relation between the economic growth and the level of employment*.

Before the use of variables in models to test the hypotheses, we carried out the stationarity of time series. To facilitate stationarity and for a greater firmness in error self-correlation, all variables have been initially introduced in a logarithm; further on, we applied the first or the second difference, according to each case in part. To test whether the series have already been rendered stationary after applying the first or the second difference, we used the *ADF (Augmented Dickey-Fuller)* test; the lag number was chosen according to the *Schwarz information criterion*. The information is presented in table 1.

**Table 1. Testing series stationarity**

<b>Variables</b>	<b>ADF level, trend and constant (t-Statistic) (lag number)</b>	<b>First ADF difference (constant) (t-Statistic) (lag number)</b>	<b>Second ADF difference (constant) (t-Statistic) (lag number)</b>
<b>Unemployment</b>	-2.532116 (1)	-3.646646(1)**	
<b>Remittances</b>	-0.190623(1)	-5.086631(0)*	
<b>GDP</b>	-2.573496(1)	-2.356920(0)	-4.313318(0)*
<b>Salary</b>	-2.607571(0)	-3.170659 (0)**	
<b>Investments</b>	-2.698764(1)	-3.020860(1)***	-4.164290(2)*
<b>Public expenses</b>	-1.752896 (1)	-2.846225 (0)***	-4.680656(2)*
<b>Human capital</b>	0.475353(1)	-4.358692(0)*	

Source: the results obtained were processed by EViews7 software based on the data in Appendix 2;

\*, \*\*, \*\*\* is the level of significance of 1%, 5% and 10% respectively.

Table 1 shows the results of ADF use to test series stationarity. The first column shows the results of testing stationarity series in their initial form after algorithmisation, whereas the second column shows the results of their testing after the first and the third differences are applied, as well as the results after the application of the second difference. The results presented in the table showed us that, except for the *economic growth* variable that required the application of the second difference, all variables became stationary after the application of the first difference. To increase the degree of significance, we decided to apply the second difference in the case of *investments* and *public expenses* variables, as well.

The assessment method we employed is *OLS - Ordinary Least Squares*. For standard error assessment, the Newey-West assessment method was used which is more coherent in the presence of the Newey-West estimator of the disturbance covariance matrix (heteroskedasticity and autocorrelation consistent).

**Table 2. Assessment results of the impact of remittances on the level of unemployment (dependant variable: unemployment)**

Variables	OLS (standard errors)	OLS (standard errors)	OLS (standard errors)	OLS (standard errors)
<b>Unemployment (-1)</b>	-0.045328 (0.179125)	0.265091 (0.152738)	1.220188* (0.190966)	1.354366* (0.180750)
<b>Remittances</b>	- 0.563873** (0.258420)	-0.186903 (0.257236)	-0.792040* (0.209693)	-1.021940* 0.160852
<b>GDP</b>		-1.672737* (0.527383)		
<b>Salary</b>			-0.662895* (0.308919)	
<b>Investments</b>			-1.302647* (0.396540)	-1.460888* (0.354763)
<b>Public expenses</b>			-0.007976 (0.011651)	1.707514* (0.444887)
<b>Human capital</b>				-0.507146 (0.464023)
<b>Observations included</b>	18	18	18	18
<b>Testing co-integration by testing residuals for a unit root</b>	-3.820400 (0)**	- 4.208333(0)*	-3.730517 (1)**	- 3.051340(0) **
<b>Adjusted R<sup>2</sup></b>	0.365946	0.521803	0.890897	0.861116
<b>F-Statistic</b>	5.905796	7.183410	28.76324	22.08090
<b>(F-Statistic) Prob.</b>	0.012831	0.003735	0.000003	0.000011

Source: the results obtained were processed by EViews7 software based on the data in Appendix 2;

\*, \*\*, \*\*\* is the level of significance of 1%, 5% and 10% respectively.

According to table 2, we may notice the evolution of the  $R^2$  adjusted value as the number of variables introduced in the model increased which proves the fact that selected variables were relevant for unemployment evolution, explaining 89% and 86%, respectively of unemployment variation in the period analysed.

The results in table 2 confirm **hypothesis 1**, truly signalling an important contribution of remittances to unemployment diminution. Even if the greatest

part of remittances sent by Romanian immigrants take the shape of consumption and education expenses or are rather used to improve housing conditions, than to set up new businesses (see, for instance, Toth, 2009 or Lăzăroiu, Alexandru, 2008), they have played a key role in the indirect diminution of unemployment by increasing the demand of goods and services stimulated by additional revenues which encouraged the increase of the level of goods and services stimulated by additional revenues which, in their turn, contributed to the increase of the level of production.

The evolution of the labour market was strictly influenced by the change of the political regime after the fall of communism in 1989. The transition period had to be accompanied by a large privatisation process so as to reach the stage of market economy. However, transition was only the passage from political domination of the communist regime to the economic regime of the new oligarchy. They knew the system quite well and their concern was to use the state's resources rather than eliminating the inefficiency of public companies. By 1996, when elections took place, the government had already privatised only 12% of the goods in state's patrimony. The privatisation of "giants" in the Romanian economy was carried out as soon as the new political coalition was enforced after the 1996 elections. As a result, Romania was not subjected to "a shock therapy" as other states were immediately after the change of the communist regime which did not force unemployment to extremely high quotas, but it remained at a high level during the 90s; the workforce remained abundant due to the redundancies caused by the bankruptcy of public companies. Moreover, the many changes in regulations, high bureaucracy, corruption, high taxes and unavailability of credits did not allow the rapid development of private environment to absorb the workforce made redundant. Hence the Romanians' lack of options. Thus, international migration becomes an increasingly significant option for survival. In 2000, the Romanian economy began to stabilise and the economic growth recorded in several consecutive years led to the increase in the workforce demand.

The results obtained confirm the strong opposite connection between *GDP* and unemployment (which confirms **hypothesis 6**) and between the salary and unemployment levels (according to **hypothesis 4**). As international migration spread especially after access to the Schengen space was made easier, since 2002, a deficit of the workforce can be noticed. This development significantly diminished the level of unemployment exerting pressures so as the level of salaries to increase. This deficit would soon disappear, as a result of the economic crisis at the end of 2000. The proof lies in the fact that the level of salaries decreased in 2009 and 2010, as compared to 2008.

The improvement of Romania's business climate and economic perspective as a result of the negotiations for our country's joining the European Union (1999) stimulated the spectacular increase of investment. Real net

investments increased from 116 billion lei in 1991 to 340 billion in 2007, significantly contributing to the increase in the workforce demand and the diminution of the Romanian unemployment, respectively. However, the excessive demand on the labour market would not be maintained for long by the high level of investment as, in the context of the economic crisis, its level started to decrease reaching no more than 2006 billion in 2010. Still, the results obtained validate **hypothesis 2**, confirming the fact that investments supported the decrease of unemployment.

As far as public expenses are concerned, the results obtained confirmed **hypothesis 3**, identifying a positive relation between the level of public expenditure and employment. This connection can be explained by the slow transition process of Romania in the 90s when the high unemployment rate and high public expenses had the effect of covering the inefficiency of the public sector.

*Human capital* also had its important contribution to the decrease in unemployment, confirming **hypothesis 5**. The percentage of population enrolled in secondary education aged between 15 and 19 increased from 53% in 1990 to 72% in 2010. It cannot be denied that remittances had an important role in supporting the expenses on education, as sociological studies also point out (see Toth, 2009, Lăzăroiu, Alexandru, 2008) which is positively shown in remittances. Even the intention of immigrating and gaining a good salary abroad may be one of the reasons for the increase in the population's level of education in the context of an increasing Romanian migration.

Therefore, the econometric analysis carried out validated the main hypothesis according to which remittances contributed to the decrease of the Romanian unemployment. The model definitely has its limitations and we cannot assess the influence of remittances on employment to a full extent (first, we recalled the fact that the remittance series only comprises formal money transfers; second, following the results in table 2, we can notice that the coefficients' values change as new variables are being introduced; third, it is possible for a model to have the pretences of including all influencing variables of the respective period). However, when starting from an equation as simple as the one shown in the first column with the results in table 2 and as more variables have been introduced in the model, the relation between unemployment and remittances was a negative one; this shows that remittances sent by the Romanian immigrants had a real contribution to the decrease of the Romanian employment confirming the purpose of the econometric analysis, namely that of testing whether remittances influenced the level of unemployment in Romania.

## CONCLUSIONS

Further to this analysis, we can state that migration had positive effects on the Romanian labour market by means of remittances, stimulating the increase of production and decreasing unemployment. Romanian migration started to grow in the second half of the 90s, but especially after 2002, when the visas for the access to Schengen space were no longer necessary. However, the dimension of the Romanian migration was not resented on the labour market until late after 2000 (in the 90s, the offer for the workforce was abundant, as a result of privatisation and restructuring that the transition period implied). Yet, the Romanian economy had known economic growth several years in a row in the previous period when the Romanian migration had started to increase. Consistent remittance flows sent by the Romanian immigrants seemed to have compensated for the decrease in goods and services due to the immigrants' initial departure, encouraging the increase in the level of production (especially through the effect of multiplication that consumption generates and less by the set up of new businesses and direct creation of workplaces) and unemployment diminution, respectively. Problems on the labour market would occur in the middle of the first decade of 2000, when companies started to have recruitment problems (due to an increasing demand in workforce owing to the positive economic development recorded several years in a row, in the context of a decreasing workforce offer as a result of international migration). But these aspects would not be resented for long as the economic crisis at the end of 2000 when the level of production decreased as a result of a drop in demand, resulting in a lower demand on the labour market.

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## Appendix 1

The data series used for variables generally cover the period between 1990 and 2010 according to their availability. The following variables were employed:

- **Unemployment:** the rate of unemployment at the end of the year (*Statistical Yearbook of Romania, 2010*);
- **Remittances:** the true value of remittances (1900=100; indexes of consumption prices, *Statistical Yearbook of Romania, 2010*). The data on remittances during 1991-1999 have been taken over by Dăianu *et al.* (2001, p.16) and comprise 2 flows available in *Balance of Payments and Investment Position of Romania* (starting with 2000): *private transfers and revenues obtained from employees compensation*. USD/EUR values were expressed in Lei and the average annual exchange rate of the National Bank of Romania was used;
- **GDP:** real value of GDP (1990=100, indexes of consumption prices, *Statistical Yearbook of Romania, 2010*);
- **Salary:** real average net salary (1990=100; indexes of consumption prices, *Statistical Yearbook of Romania, 2010*);
- **Investments:** value of net investments (1900=100, indexes of consumption prices, *Statistical Yearbook of Romania 2010*);
- **Public expenses:** the amount of the real value of public expenses of the state budget and the expenses of local budgets (1990=100; indexes of consumption prices, *Statistical Yearbook of Romania 2010*);
- **Human capital:** annual average of the population enrolled in high school aged between 15 and 19 (*Statistical Yearbook of Romania 2010*);

## Appendix 2

### Time series used

Year	Unemployment (%)	Remittances (billion lei, 1990=base year)	GDP (billion lei, 1990=base year)	Salary (lei, 1990=base year)	Investments (mld. lei, 1990=base year)	Public expenses (billion lei, 1990=base year)	Human capital
1990		2,19912	857,9	3381	168.4		0,529787
1991	3	1,952787	815,6551	2760,918	116.2102147	220,6884	0,412832
1992	8,2	4,479006	718,7887	2401,049	105.9370529	217,7396	0,367968
1993	10,4	2,95165	670,7633	1999,23	94.46936726	161,5266	0,364159
1994	10,9	5,476478	703,8165	2007,254	113.1888177	179,0947	0,380874
1995	9,5	8,521455	771,2222	2259,852	138.9387816	204,4529	0,400916
1996	6,6	14,55423	838,9143	2473,689	161.3236903	220,9529	0,41048
1997	8,9	14,34589	764,6596	1910,959	133.4305815	190,9704	0,410173
1998	10,4	14,47095	710,3162	1980,598	114.9950023	172,9206	0,403664
1999	11,8	16,32651	711,253	1984,775	109.4099937	167,4565	0,408005
2000	10,5	20,84513	719,1499	1914,696	111.8666904	163,1831	0,413966
2001	8,8	24,69262	776,9523	2009,439	135.8666904	169,4629	0,437743
2002	8,4	29,42851	825,4521	2057,97	147.552075	173,495	0,449638
2003	7,4	38,76057	929,9857	2279,889	167.9355225	193,1208	0,446844
2004	6,3	56,07816	1041,53	2522,057	188.9223152	208,8979	0,4476
2005	5,9	65,73316	1116,034	2881,287	210.7510618	222,3125	0,444269
2006	5,2	79,7259	1249,185	3138,814	264.1931941	277,7394	0,472421
2007	4	85,86543	1438,248	3602,476	340.2566567	340,0427	0,513253
2008	4,4	91,65744	1649,947	4196,194	319.0440705	394,6044	0,549148
2009	7,8	62,41703	1521,462	4132,002	227.5160561	400,5285	0,631976
2010	7	52,17202	1495,381	3980,538	206.8812607	411,6034	0,717803

# FDI AND REGIONAL DISPARITIES: CONVERGENCE OR DIVERGENCE?

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**Abstract:** *The benefits from FDI and its effect on regional disparities is one of the major issues to current debates about regional development. This paper provides further understanding by analyzing the new role of “place” in the context of globalization and the emergence of a new kind of bilateral interaction between MNEs and localities. It also examines the features and outcomes of three major patterns of FDI assisted development of regional economies and the importance of absorptive capacity of local socio-economic structure, using the concept of local “embeddedness”. It has been a matter of disputes if FDI has the potential both to reduce and expand regional disparities and if uneven development will be further extended with the acceleration of the process of globalization. In the contemporary world prosperous region needs a "new generation" of policies to encourage responsible investors' behavior, to create synergies and ensure the achievement of broadly defined goals of sustainable development.*

**Keywords:** globalization, foreign direct investment, regional development, regional disparities

## INTRODUCTION

In the last (few) decades, countries and regions have fiercely competed to attract FDI. The reason for this “race” is the opportunity to use MNE’s economic and technological potential to accelerate the development and reduce regional disparities by deeper integration into the global production system. Studies have shown that the influence of MNEs is not unidirectional and often spatially heterogeneous. For example, study of Bajo-Rubio et al. (2010) in Spain reveals that MNEs have a strong positive effect on output growth in all 17 subnational regions, whereas according to Barrios et al. (2005) the effect of FDI in Ireland is not consistent and depends on the degree of local development and parameters of regional policy. Ledyeva and Linden (2006) find that FDI does not significantly contribute to the economic growth of the regions in Russia, and the dynamics of local production depends primarily on the characteristics of the local economy. Moreover, FDI does not have as positive effect on the process of convergence between Russian regions as expected. For the PRC Wei et al. (2007)

argue that FDI has played a consistent and positive effect on growth differences. Divergent results have also been demonstrated by different studies on the impact of FDI on regional employment and incomes (Heyman et al., 2007; Blomström et al., 2006; OECD, 2009).

Obviously, the positive effects of the presence of MNEs in the local economy are not granted. Moreover, good intentions to attract FDI can have devastating effects on the local economy widening regional differences. The question is: under what conditions and why?

The effect of FDI on the local economy, the convergence or divergence of development depends on three important features.

First, despite the liberalization and reduction of cost of transportation and communications, activities of MNEs and therefore their positive effects are unequally distributed between regions.

Second, the impact of MNEs on regional development depends not only on the amount of imported FDI but also on the type, scope and depth of the linkages that MNEs establish with the participants in the local economy, i.e. the degree of embeddedness and the particular mode of interaction (scenario of development).

Third, FDI can feed local economic development and decrease disparity only if regional economy possess sufficient absorptive capacity. FDI in less developed or lagging regions would generate more negative horizontal spillover effects, at best, MNE will follow the strategy of limited commitment, widening regional divergence.

Each of these issues is analyzed in details in the remainder of this paper.

## **1. SPATIAL DISTRIBUTION OF FDI**

At the end of the twentieth century, concepts like "global village" and "shrinking world" were the reason why many experts declared "death" of economic geography, regional economics and "place" as a useless relic of a past stage of world development. In fact, the process of globalization not only makes locational and regional problems anachronism, but leads to their renaissance after decades of neglecting (Scott, 2000, p.3).

According to the theory of internalization, global liberalization creates opportunities for MNEs to maximize their returns on firm specific assets through cross-border expansion of MNEs. Contrary to predictions and expectations, the data shows a sustainable tendency toward regional agglomeration of FDI and production. For example, in 2006, 54.2% of FDI stock in Hungary and 53.7% of foreign investments in Czech Republic were registered in Budapest and Prague. The same year in Bratislava were invested 98.6% of country's FDI in the financial and 61.7% of non-financial sector (Pavlinek, 2009, p. 173). A similar pattern of localization is observed in developed economies. In Austria, for example, 57% of FDI and 51% of the created jobs are registered in Vienna. Even

more vivid is the case of Japan - 80% of the investment projects of foreign companies responsible for nearly 90% of all sales of foreign affiliates are located in Tokyo and its surrounding areas (UNCTAD, 2001, p. 59). Thus, while the visible side of globalization rationally pushes MNEs to greater spatial dispersion of cross-border activities, other motives force multinationals toward local concentration. Paradox that Markusen (Markusen, 1996) defines as "sticky place within slippery space" and which requires a redefinition of the concept of space, locational determinants and the relationship between "regional" and "global".

Mainstream economic geography and regional economics define the region as a geographical territory with high degree of homogeneity (income level, culture, religion, etc.), inhabited, modified and constantly developed by people, using local natural resources (Marston et al., 2001, p. 4). In the context of globalization such definition seems anachronistic, as it is a formal horizontal (flat) understanding of space (location) and its significance.

According to D. Massey (Massey, 2005, p. 107), nowadays "place" is an evolving dynamic sphere of relations between heterogeneous units beyond which it does not exist. "The place" brings together a set of open, interconnected trajectories of production which sometimes coexist successfully and sometimes not. It is always under construction, never completed or closed. Within the relational concept of space A. Scott (Scott, 1996, p. 397) redefines the region as "localized system of social and economic activities, sustainable entered in a specific territory." Separating the "place" from its solely territorial dimension of D. Massey and A. Scott completely changed the understanding of the importance of location in the global economy. They enable the organic incorporation of "place" in the idea of shrinking world and growing interdependence. Relational and spatial ambiguity outlines the mosaic of regions in the world economy, integrated (or quasi-integrated) into a global production network (Scott, 2000).

Spatial paradox of globalization finds its logical explanation within the framework of relational approach. Sharpened global competition forces companies to seek new sources of competitiveness. Such can be found in densely populated areas where high concentration of socio-economic activities creates positive externalities and agglomeration economies for all participants. Sources of these effects are specialization and horizontal spillovers between manufacturers, organizations and institutions, sharing of resources and on this basis the opportunity to upgrade specific business knowledge. Irrespective of the development of transportation and communications, the extraction of each of these agglomeration effects distantly is impossible.

A key to resolving the spatial paradox of globalization can also be a distinction between "competence-exploiting" and "competence-creating" affiliates (Cantwell and Mudambi, 2005). The competence exploiting subsidiaries are those that receive firm specific knowledge through intra-firm transfers with the commitment to exploit it at foreign location. The competence-

creating affiliates are a relatively new phenomenon associated to the already discussed changes in the global economic environment. Their role is to absorb localized tacit knowledge and enhance MNE' ownership advantages. To prevent leakages of company assets, MNEs provide a limited set of competencies to the subsidiary, sufficient to meet strategic objectives within a specific location.

Therefore, in the context of globalization, "place" has a new role with a growing importance. On the one hand, the socio-economic relations and institutional characteristics of the environment contribute to the productivity of companies and their capacity to cope with increasing competition. On the other hand, the region itself is an expression of identity and specifically accumulated knowledge that is integrated and inseparable from the cultural, social and institutional dimensions. "Place" become a source of innovation and efficiency and determine the speed and trajectory of development. Locational advantages of the regions are no more treated by MNEs as a passive set of resources and markets, but as an opportunity to harvest specific competitive advantage by the presence in them. Thus, MNEs favor predominantly developed regions and ignore lagging ones, widening the divergence gap. This disparity will be further extended with the acceleration of the globalization process which will inevitably widen the differences in the extent and the rate of development of the regions.

Globalization not only redefines the meaning and role of the regions, but they also meet new challenges. The most striking of these is the growing economic instability and vulnerability. Constant changes in demand, competition and accelerated innovation process need continuous structural adjustment of the local economy. The process of adaptation is related to a recurrent crisis on the labor market and production structure in some regions and new opportunities for prosperity in others. Opening wide their production system for foreign investment, regions become dependent on external global actors which do not have a social responsibility as a local business. MNEs have the potential to deliver many benefits to the local economy, which can be quickly removed if they decide to withdraw their investments.

Because of their size and high returns, global markets have a clear advantage over the local (regional) markets. More highly skilled productive workers participate in global integrated value added networks and buy their output. The good part of this process is the increasing specialization and growing efficiency of regional economy. At the same time, participation in global production chains causes a separation between globalized and non-globalized sectors and involved people. There are premises for depersonalization, economic fragmentation, social distancing, emergence of marginalized and isolated class of people, and hence collapse of the social system of relations that supports the existence of the whole region (Casanova, 2004, p. 15).

In an increasingly globalized world, there are cities and regions that win and others that become losers, depending on their factor conditions, industrial

structure and competitiveness, institutional system, and ability for rapid structural adjustment. There is a danger of marginalization or exclusion of places and regions that are not attractive and important to the world economy, which will inevitably slow down their development and expand the gap between winners and losers from globalization.

Generally advanced countries are defined as net beneficiaries of the new world order while the underdeveloped – as net losers. Contrary to the classical "core and periphery" understanding, studies show that the global economy is more polycentric. There are regions of the "South" which are integrated into the global economy, while similar areas of the "North" become increasingly marginalized. Furthermore, poverty, unequal distribution, decelerating technological development are issues that traditionally concerns the underdeveloped "South" but gradually become a problem for cities and regions of the developed "North", although poverty rates and scale problems are not always comparable.

## **2. “EMBEDDEDNESS” OF MNES AND PATTERNS OF DEVELOPMENT OF REGIONAL ECONOMY**

In quantitative terms, the impact of MNEs on the regional economy will depend on the degree of internationalization of the company, and in particular - on the size (scale) and type (in terms of value added) of localized activities in the region. Undoubtedly, the amount of investment is important, but the practice in the recent decades shows that amount of imported FDI is equally important to their quality. The quality of FDI is determined by the objectives pursued by MNEs and the way they correspond to local development strategies. Therefore, the impact of MNEs on regional development will depend not only on the degree and extent of penetration, but also on the organization of cross border activities: what kind of linkages multinational builds and with whom, their depth, scope and duration, i.e. its degree of “embeddedness” in the local economy.

The concept of "embeddedness" was introduced for the first time in 1944 by the economic sociologist K. Polanyi (Polanyi, 2001). Frustrated by the lack of social dimension, domination of economic rationality and market self-regulation in mainstream economic theory, K. Polanyi considers economy as a network of closely interconnected economic and non-profit institutions. Forty years later, M. Granovetter (Granovetter, 1985) extended the concept of K. Polanyi, introducing the idea of networks by making a clear distinction between the two forms of embeddedness: relational and structural (network). The first is an extension of the ideas of K. Polanyi and is related to the nature and quality of the relationship between "actors" in society, while the second reflects the very structure of the network linkages. Social network is specific (of many possible)

configuration (state) of the social relations of communication, subordination, exchange, etc. that connect the participants in the large social structures.

The last and most important development of the concept of embeddedness is the introduction of spatial dimension that scientists working in the field of economic geography and regional economics used to analyze the relationships between firms and territories in which they are located (Amin and Thrift, 1994; Dicken and Malmberg, 2001). In the context of embeddedness, the region is considered as "authentic community of interests", i.e. as political, social and economic framework of action which is characterized by common legal interest, specific economic and administrative homogeneity (Coe et al., 2004).

Attempts to adapt and apply the concept of embeddedness to the purposes of the different studies lead to its complete separation from the original ideas of Karl Polanyi and even worse - the lack of common understanding of its nature and taxonomy. Despite the definitional issues, there is a clear consensus on the three main dimensions of the concept of embeddedness:

- Social embeddedness reflects mostly the ideas of Granovetter. It highlights the importance of the origin of the particular actor in terms of the values of the environment in which it was created and developed (whether individual, company or organization). The origin and history of each participant determine his/her perception, action and development path, and hence his/her relationships with other actors in the socio-economic processes.
- Network embeddedness is related to the commitment of participants (individual or company) in the structure (network) of relations within a group of individuals or organizations, irrespective of their origin. It reflects the architecture, durability and sustainability of individual relations of the participant, be it formal or informal, which determine its integration within the network of relationships.
- Territorial embeddedness reflects the extent to which a particular participant is "anchored" to a territory or place. Economic actors are embedded in a sense that they are dependent, or benefit from, and in some cases are limited by resources, business processes and social dynamics that already exist on the ground. Territorial dimension of integration is the third and most important typological characteristics of embeddedness introduced in studies of economic geography.

These three dimensions of embeddedness are closely interconnected and form a relational-spatial context of socio-economic activity.

The concept of embeddedness in its modern version provides multidimensional and productive taxonomy toward analysis and assessment of MNE's effects on local economy, which is in synchronization with today's understanding of the nature and features of regional development. However, its use in the theory of the FDI and MNE is relatively scarce and most often incomplete (Hess, 2004). The main reason is the inability to articulate all the

linkages and effects in which affiliates of MNE are involved. A useful key to this issue is offered by Phelps (Phelps et al., 2003, p. 28). According to Phelps, embeddedness of MNE in local economy represents the type, depth and quality of the linkages between a foreign firm and host companies and organizations, and the extent to which spillover effects provide opportunities for the development of local economy.

Depending on the degree of embeddedness of the affiliate in regional economy, there are three major patterns of FDI assisted development: enclave economy, dependent development and endogenous development (sustainable, evolutionary) development.

Enclave is an extreme pattern of interaction of MNE with local economy, for which the use of the term "development" is rather inadequate. In this case, a foreign affiliate provides a high level of direct employment of local resources, but operates almost completely isolated from the regional economy as "cathedral in the desert" (Hardy, 1998). Usually, the subsidiary is natural resources or an efficiency seeker, highly integrated into international network of MNE, having a very limited mandate, respectively opportunity to take independent decisions on the organization of activities. The production depends on international sourcing, whereas local procurement is very limited. The output and generated income are exported to country of origin of MNE or third markets. Reinvested profit is limited to the amount of depreciation.

The enclave should not be associated only with low-tech labor-intensive or "dirty" industries. The affiliate may have advanced production facilities and good management, but MNE's knowledge remains entirely enclosed. If any, linkages with local suppliers are usually limited, short-term, shallow and unidirectional. MNE can make some exceptions in order to improve its public image by sponsoring public events, individual institutions or investing a limited amount of resources in the regional social system.

Enclaves are not only a theoretical abstraction. Many examples can be found among the "maquiladora" plants set up by foreign multinationals in Northern Mexico (Gallagher and Zarsky, 2007), many primary sector investment projects in Africa (Melese and Helmsing, 2010), as well as some of the underdeveloped regions in Eastern Europe (Hardy, 1998). Their presence and persistence in time is the reason for a debate within UNCTAD demanding reconsideration of liberal approach toward MNEs and naive positivism in respect to their impact on development (UNCTAD, 2005).

Unlike enclaves, the dependent type of development is associated with a wide network of vertical and horizontal linkages between MNE and local firms. Their nature and structure, however, are such that development of regional economy becomes entirely subordinate to the objectives and outcomes MNE's activities. This scenario is possible mainly in cases of market or efficiency seeking FDI.

Although integrated into the international value added chain of the corporation, its subsidiary has more autonomy to determine key parameters of its cross-border activities. Vertical relationships with local-owned suppliers are predominantly hierarchical and subordinate. Long-term mutual partnerships are rare because the cost of local procurement is the leading factor for choosing local partners. The affiliate does not support its host suppliers and the transfer of knowledge is limited only to provision of specifications for the manufacturing of a standardized products and regular monitoring of their manufacturing process and output. Because of the comparatively larger scale of activities, MNE often becomes the primary user (monopsony) which controls the profits and growth potential of the local suppliers, outsourcing low added value stages of production. In the case of market-seeking FDI horizontal linkages are predominantly competitive. MNE uses its ownership advantages to expand its market share at the expense of host counterparts. There isn't any interest in joint activities, cooperation, product development, social initiatives and etc.

The outcome of such trajectory of development is an almost entire absence of positive vertical spillovers from FDI, restructuring and subordination of local suppliers base and strong "crowding out" effect, by taking market share from less efficient indigenous firms, forcing them to produce lower levels of output at higher average cost. Regional economy becomes highly dependent on the decisions of MNE and international economic fluctuations. Potential benefits to regional development are limited to growth of the foreign-owned affiliate's demand, extensive use of local resources (mostly labor) and narrow income growth of local businesses and households. Last but not least, all gained benefits from FDI will be removed as rapidly as they have been delivered when and if MNE decides to relocate its activities.

Evolutionary or sustainable development is a typical effect of strategic assets seeking FDIs, although not limited only to them. The increasing global competition forces MNE to establish more flexible structure of its cross-border value added chain and some subsidiaries gained mandate to create new firm knowledge or enhance the existing one by its presence in a given location. Foreign-owned affiliates promote and operate on the basis of a wide network of long-term, bilateral, mutually beneficial linkages with host suppliers, counterparts, organizations, institutions and etc. from related sectors. Deep relationships create conditions for significant spillover effects, many of which are desired by MNEs. Ultimately, active and long-term bilateral cooperation between MNE and different participants in the regional economy leads to upgrading of local resources, which becomes a vehicle for sustainable endogenous development, even after the withdrawal of the corporation from the local economy.

The completely different outcomes of the three scenarios are due to the depth of embeddedness of foreign-owned affiliates in the regional economy.

Enclave subsidiaries do not feed local development because they operate completely isolated, with the exception of some limited linkages with the labor market. In the situation of dependent development MNEs establish intensive but unilateral hierarchical relationships with local actors. The development is limited to the extensive use of available resources and depends on the decisions of the corporation. Only the deep embeddedness enhance local resources and knowledge, creating conditions for sustainable endogenous growth, the benefits of which remain even after MNEs' leaving of the regional economy. As practice reveals, all three scenarios are possible. Therefore, FDI has the potential both to reduce and to expand regional disparities. Explicit determination of the final outcome is ambiguous, as it depends on many factors related to both MNEs and the characteristics of the location itself.

### **3. ABSORPTIVE CAPACITY AND "THE LEARNING REGION"**

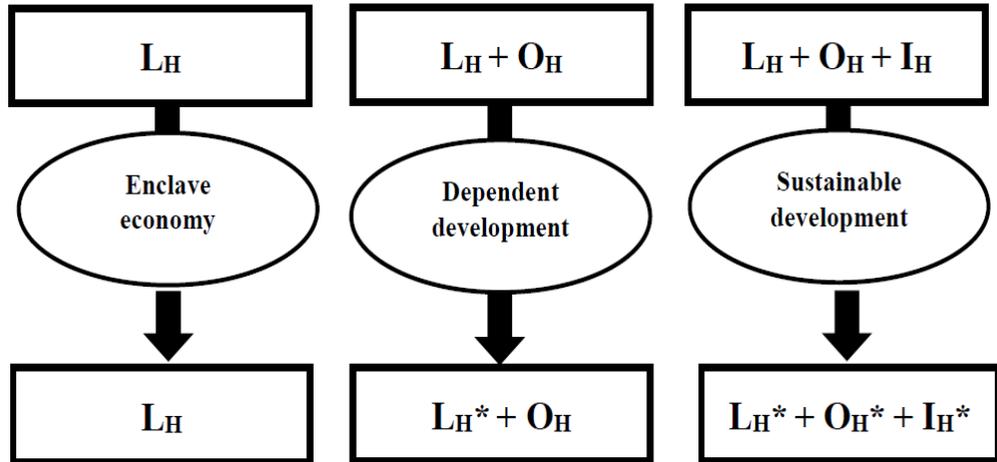
The regional development process involves the synergistic combination of corporate resources with those of the local economy. From such perspective, sustainable endogenous development, relying solely on the positive effects of MNEs, looks like a desperate attempt to clap with one hand. Significant positive externalities are possible only within sufficient absorptive capacity.

Absorptive capacity is the ability of local firms to identify, adapt and exploit knowledge from the environment in which they operate (Cohen and Levinthal, 1990). It is usually associated with the technological gap between MNEs and local firms, the amount of R&D in the regional economy, the qualification of labor resources (human capital). The larger the gap between foreign and local firms is, the less the possibility of a positive vertical and horizontal spillover effects from FDI is (Crespo and Fontura, 2007).

From this point of view, the cause for enclave formation or dependent development is not only in the strategy of MNEs, but also a rational outcome of specific features of the location. Going back to the three basic forms of regional development, *ceteris paribus*:

- in cases where the regional economy possesses only and solely specific location advantages ( $L_H$ ) and the low level of development of its economic system, MNE will operate completely isolated within enclaves;
- when local firms have limited firm (ownership) advantages ( $O_H$ ), i.e. local companies are "mass producers" and there is a wide technological gap (low absorptive capacity), MNEs will maintain extensive and hierarchical linkages with strong direct but limited spillover effects;
- sustainable growth and upgrade of regional resources will be possible when local businesses' and organizations' possess exposed strategic advantages ( $I_H$ ), which MNEs can use and develop through mutual long-term linkages.

**Figure 1. Importance of location, firm and strategic advantages for the trajectory of regional development**



Obviously, sustainable development through FDI could be achieved only by a new kind of attractive and flexible local economies. In the context of globalization, prosperous region needs new sources of competitiveness, a new relational structure, institutions and methods of regulation. This new type of spatial organization of social and economic relations most often is defined as "learning region" (Florida, 1995, p. 532). Unlike the region of mass production for internal consumption, the learning region:

- has a production infrastructure of closely related manufacturers, suppliers, organizations and institutions, facilitating the free movement of products, ideas and technologies;
- puts strong efforts in the integration of all subsystems and regional institutions in a sustainable process of mutual learning and innovation;
- follows the principles of sustainable use of resources available on its territory;
- has a flexible labor market and skilled workers who can use their skills in the production;
- develops network activities between business, educational and research institutions in the region to expand the base of knowledge and continuous training of people.

In a globalized world "learning region" should provide vital resources and environment for the flourishing of knowledge-based sustainable economic relations, competitiveness of local products through continuous upgrading of existing resources and permanent structural adjustment to ensure social integrity, equality and identity to the local community.

## CONCLUSIONS

The study reveals that because of globalization a new kind of bilateral interaction between MNEs and the localities emerges. Global competition forces MNEs to seek new sources of competitiveness through spatial reorganization of cross border activities. These changes favour regions that provide a new kind of dynamic agglomeration effects, opportunity for upgrading firm's specific knowledge and efficiency. In terms of region, globalization and the entry of foreign firms create new opportunities but also new challenges.

Positive effects of FDI do not occur automatically but under certain conditions. They arise mostly in regions characterized by a high degree of urbanization, concentration of economic activities, high administrative capacity with significant innovative and productive resources, large and growing internal market. In such regions MNEs follow the model of sustainable development, embedding their affiliates deeply in the regional economy through a wide network of long-term mutually beneficial relationships with local companies and organizations. In unattractive lagging regions MNEs tend to operate in isolation, taking advantage of the large supply of cheap resources. In this case MNEs do not create positive spillover effects but mostly restructure and subordinate the supplier sector, often causing bankruptcy of local noncompetitive firms. Regional economy can take on the trajectory of the dependent type of development, entirely reliant on the decisions of the corporation and its international environment.

This study is directly related to the features of contemporary economic policy. Naive pursue of the neoliberal ideas inevitably leads to a concentration of economic activities in limited areas and widening of regional disparity. The currently applied measures to attract FDI through tax incentives, provision of land or creation of artificial industrial areas in underdeveloped regions have a short-term effect, creating shallow and subsidized benefits from extensive exploitation of cheap resources. In the context of globalization, a prosperous region needs a "new generation" of policies and mechanisms to regulate MNEs. Those that encourage responsible investors' behavior, create synergies and ensure the achievement of broadly defined goals of sustainable development.

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# ASSESSING ROMANIA'S ENERGY POLICY IN THE CONTEXT OF A GREEN EUROPE

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**Abstract:** *Over the last decade, the World has shown increased concern for climate change and energy security. The emergence of these issues has pushed many nations to pursue the development of clean domestic electricity production via renewable energy (RE) technologies. RE development has generally been a top priority for the EU. The climate and energy legislative package, which was adopted just a few years ago, is already having a significant impact on the way in which the energy policies of member states are evolving, especially with regard to RE. The current paper aims to provide a review of energy regulations and RE support mechanisms specific to the EU and to place the recent changes in the Romanian energy policies within this context. The paper will also provide an outlook regarding the future of the EU and Romanian regulations based on a previous study of industry experts' points of view and on recent announcements and press releases made by the Romanian Government. We will also address some of the implications of the EU's energy legislation with regard to its fossil fuel suppliers. The results of this assessment will provide a reference for future research regarding the European and Romanian energy sector and will indirectly outline the expected evolution of the industry.*

**Keywords:** energy policy, EU, Romania, renewable energy, green certificates.

## INTRODUCTION

For more than a hundred years, the development of humanity has been tightly intertwined with that of the energy industry. If the energy sector completely ceased to function, the world would return to the status quo of the nineteenth century and most of the knowledge gained by our society over the last hundred years would become useless or lost. A severe disruption in the energy supply at a national level would paralyze most economic activity within the affected country. This is why the stability of the energy sector is considered to be of strategic importance for the governing authorities across the world. However, as our need for energy increased over time, so did the impact that the energy sector has on human health and the environment. The emergence of these issues has pushed many nations to pursue the development of clean domestic electricity production via renewable energy (RE) technologies, as a satisfactory means to increase energy independence and to reduce ecological and health issues associated with unsustainable industrial development.

However, in an age of liberalized energy sectors, the government cannot simply dictate the direction in which the industry evolves. State run monopolies have been progressively replaced by energy companies operating in markets based on the principle of free enterprise and competition. Since such business is primarily motivated by financial gain, if governmental authorities wish to shape the industry according to a long term vision, they need to provide a regulatory framework which stimulates investors to pursue a certain direction when entering or expanding within the sector. However, due to their potential impact on the economic stability, unemployment, inflation and even international relations, the regulations that affect the energy industry are generally much broader and complex than those specific to other industrial sectors.

There are several methods that can be used to classify energy regulations. If we look at the effects of their implementation, they can be categorized into hard and soft (Attari et al., 2009). However, the most straightforward classification is based on geographical coverage: international (global or regional) and national. National regulations can be more easily constructed and implemented, even though they do need to conform to any restrictions imposed by international guidelines (e.g. regarding the control of nuclear proliferation or CO<sub>2</sub> emissions). However, establishing energy regulations that are accepted and implemented internationally requires numerous high level meetings and intense negotiations, as well as ample feasibility and impact studies regarding their implementation. This translates to a significant effort from all parties involved, which can be further amplified by the number of countries taking part in the discussion.

Likely the most significant and best known project of this kind was the Kyoto Protocol of the UN Framework Convention on Climate Change, which entered into effect in 2005. This was an agreement among 37 industrialized states and the members of the European Community, through which developed nations committed themselves to a 5% reduction of their greenhouse gas emissions (GHG) – to which the energy sector is the biggest contributor (Eurostat, 2013) – compared to the levels recorded in 1990, by the end of 2012. Although most developing nations were also signatories of the Protocol, they did not have an emission reduction target since, historically speaking, the main polluters of the environment have been industrialized states. It is worth mentioning that the United States did not ratify the Protocol (United Nations, 1998).

The Kyoto Protocol also offers a good example of how difficult it is to reach a global consensus even on issues such as environmental protection. As a result of repeated failures in establishing a successor for the Kyoto Protocol, in December 2012, the Doha Amendment was adopted. This new agreement extended the validity of the Kyoto Protocol, established new GHG reduction targets and extended the list of restricted emissions to include other pollutants. However, several countries, which had previously signed the 1998 Protocol, did not agree with the new terms, so the

Doha Amendment also states that a replacement for the Kyoto Protocol should be outlined by 2015 (United Nations, 2012).

The current paper aims to provide a review of energy regulations and RE support mechanisms specific to the EU and to place the recent changes in the Romanian energy policies within this context. The paper will also provide an outlook regarding the future of energy regulations.

The first section will address the EU energy policies, focusing primarily on the “climate and energy package” also known as the EU 20-20-20 targets. Section two will provide an assessment of the current regulatory environment of the Romanian energy sector. Section three will offer an outlook regarding the future of the EU and Romanian energy policies, based on a previous study of industry experts’ points of view and on recent announcements and press releases made by the Romanian Government. The final section will provide some general conclusions and will also attempt to delve into the overall implications of the EU policies with regard to its suppliers of fossil fuels for conventional energy production.

## **1. GREEN EUROPE – ENERGY POLICIES OF THE EUROPEAN UNION**

European states have a tradition in supporting innovation within the fields of domestic clean energy and energy efficiency, being mainly motivated by the need for environmental protection and by their dependence on fuel imports. Several regional agreements and even the EU wide regulations have been implemented within the energy sector. One example is the Large Combustion Plant Directive (LCPD) issued in October 2001.

The LCPD is a directive of the European Parliament and the European Council through which a limit is imposed on the amount of sulfur dioxide, nitrogen oxides and dust particles that can be released into the atmosphere by large combustion plants with a thermal capacity of above 50 MW. The substances mentioned above create high risks to human health, to farmland (increasing the soil acidity and damaging crops) and to ecosystems (DEFRA, 2012). The generating units under the incidence of the LCPD would have to invest in upgrading their equipment in order to reduce pollution or would need to limit their yearly running time and eventually cease all operation by 2016 (European Parliament & The Council of the European Union, 2001).

In March 2007, the EU leaders approved an integrated approach of the climate and energy fields, with the purpose of increasing the energy security and efficiency of the region and, in parallel, to combat climate change. The three goals set for Europe were the limitation of dependence on imported fuels, the increase of efficiency in the use of energy and the decrease of CO<sub>2</sub> emissions. These plans were integrated within the 20-20-20 targets of the energy and climate legislative package. The targets represent three objectives that the EU has established for the year 2020 (European Commission, 2013a):

- reduce the GHG emissions within the EU by at least 20% compared to the year 1990
- increase the penetration of renewable energy to at least 20% of total consumption
- reduce the overall energy consumption by 20% compared to initial estimates by improving energy efficiency

Reaching these objectives would be done not just through individual investment efforts by member states or companies, but also with the support of the EU's "Emissions Trading System" (ETS), a form of "carbon market" inspired by the Kyoto Protocol's flexibility mechanisms, which allowed underperforming signatory states to increase their CO<sub>2</sub> cap by purchasing emission rights from countries which had surpassed their GHG reduction target. Similarly, the ETS allows for the trade of emission allowances among various CO<sub>2</sub> generators including power plants, factories or even airlines (European Commission, 2013b).

As a result of the RE targets imposed by the climate and energy package, the EU member states needed to provide incentive schemes that encourage investors to pursue the development of the RE projects. These schemes are commonly referred to as support mechanisms. The most frequently used types of support mechanisms are feed-in tariffs (FIT) and tradable green certificates (TGC). TGCs are usually also coupled with a renewable obligation or quota (sometimes called a Renewable Portfolio Standard). The main similarity between the two is that they both provide RE producers with a direct financial incentive per unit of electricity. TGC systems generally state that for every unit of electricity delivered into the grid (thus excluding internal consumption), the generator should receive a certain number of green certificates, depending on a series of factors, such as RE technology type. These certificates can then be sold to energy suppliers, usually via a competitive market. In order to create the demand for TGCs, the regulator imposes a quota on how much RE (and implicitly TGCs) each supplier must acquire or else face penalties. FIT systems are less complicated: each RE generator receives a direct payment (tariff) for each unit of electricity delivered into the grid, based on a predetermined calculation criterion. In some cases, an additional payment is provided for electricity that has been produced and used internally by the generator (Feed-In Tariffs, 2013).

Most countries worldwide and also at a European level are currently using FIT support mechanisms. TGCs are also widely used, however not as frequently. Generally, countries tend to combine several mechanisms in their national RE support policy (e.g. FIT, TGC, government grants etc.) (REN21, 2012). As previous research has shown, the choice between FIT and TGC can be difficult and somewhat controversial (Falconett & Nagasaka, 2010; Haas et al., 2011; Ringel, 2006) since both mechanisms have advantages and disadvantages.

FIT are more adequate for a rapid RE growth objective, since the electricity produced is sometimes measured in smaller units (kWh as opposed to the MWh used in several TGC systems) and the payment is made directly to the generator.

Thus, it encourages non-specialized agents to invest in RE (households, farmers, companies with real-estate properties etc.). In addition, FIT systems are less costly to implement and manage, compared to TGC. However, when a large number of small generators emerge (a scenario labeled as “distributed generation”), this creates issues regarding grid management and development. Moreover, researchers have determined that the fixed price FIT can have a reduced economic efficiency (Ringel, 2006).

Since TGC mechanisms are more complex, their implementation is more difficult. In addition, overall participation in the scheme tends to be lower than in the case of FIT, which means that the growth rate of RE will be reduced. However, the fact that TGCs have a flexible price, which is established through a competitive market, means that there is a lower discrepancy between what level of incentive is attractive for investors and what the cost of the support mechanism actually is. Moreover, TGCs allow the governing authority to have more control over the actual increase in RE production through the above mentioned quota (Ringel, 2006).

Although FIT based policies are more efficient in promoting the development of RE, the higher costs that such policies could generate may constitute a problem, especially in the context of a financially challenged European Union. Going forward, it seems likely that TGCs will be included, in various forms, in the energy policies of EU member states, since the implementation of a single European electricity market would be problematic without a standardization of RE support mechanisms (Haas et al., 2011; Ringel, 2006).

## **2. ROMANIAN ENERGY POLICIES**

Romanian energy policies are compatible to the general legislative framework that exists in the European Union. Firstly, we will present the more general aspects of liberalization and deregulation of the Romanian energy sector before referring to the specific regulations regarding RE incentives.

The liberalization process began between the years 1998 and 2000 with the adoption of several laws and governmental decisions that focused on three principal areas (ANRE, 2013d):

- breaking up the state run monopoly over the energy sector and replacing it with several smaller companies, grouped around the main components of the industry’s value chain (production, transmission, distribution and supply)
- creating a legal framework that defines the principles and rules that allow various agents within the energy sector to sell and purchase electricity
- establishing a system and a set of rules that will allow consumers to freely choose the company that will supply them with electricity.

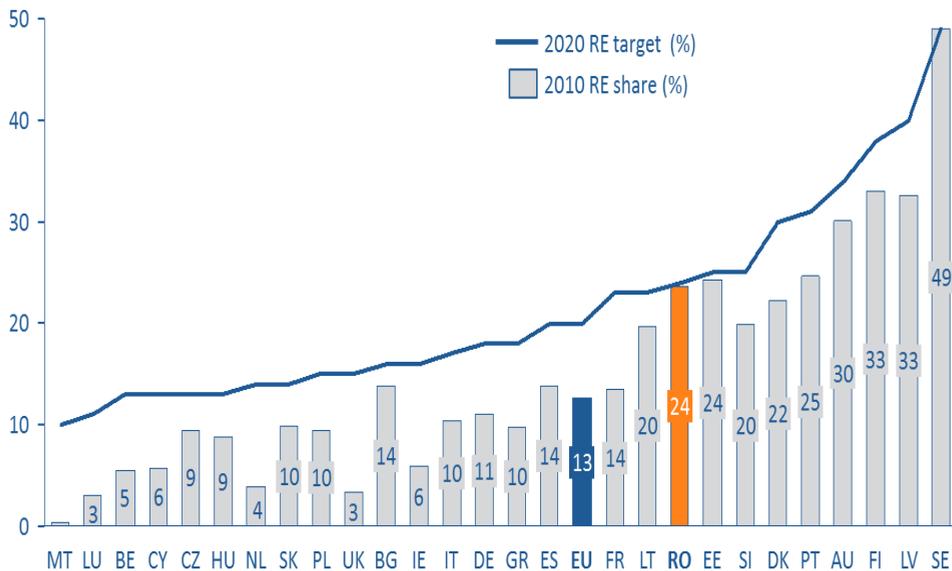
Since June 2007, all Romanian end users are able to opt for the supplier of their choice based on price plans, energy mix or any other specific preference. The electricity market is split into two branches (wholesale and retail) and both are supervised by the subsidiaries of the state run transmission and system operator Transelectrica SA and are regulated by the National Authority for Energy Regulation (ANRE).

A more recent development in the Romanian energy policy is the deregulation or elimination of regulated electricity tariffs. Until recently, any retail consumers who had not switched suppliers would be sold electricity at a fixed tariff established by ANRE. Starting with September 2012 for companies and with July 2013 for households, this regulated price will be gradually phased out and replaced with a new tariff, which is calculated based on the average price at which suppliers acquire electricity on the wholesale market, to which a series of standard costs are added, plus a 2.5% margin over the acquisition price (ANRE, 2012c).

One cannot say with certainty whether the elimination of regulated tariffs will lead to a rise or fall in the price paid by the end users in the short term. However, in the long term, this process should bring the final cost of electricity to the lowest level considered feasible by suppliers and by the other players in the wholesale market (Ivan & Nuțu, 2013). Still, experience has shown that a significant and sudden rise in energy prices for household consumers can generate civil unrest and ample protests (Euronews, 2013). Thus, it will be imperative to insure a good transparency with regard to how tariffs are calculated and to provide ample information campaigns for consumers regarding the deregulation and liberalization processes.

There are several purposes for deregulating sales prices in the Romanian energy sector, which reflect a series of advantages both for consumers and suppliers. End users will become more aware of the competitive market and they will also be able to assess the performance of their electricity supplier with regard to prices and services and then compare it with that of other companies in the market. The sellers will also benefit from the deregulation process through a reduction of their financial risk, since tariffs will be calculated based on actual electricity acquisition prices, following the actual cost structure of the retailers. Finally, the gradual phase-in of competitive tariffs is meant to protect costumers from sudden price variations which could arise from differences between regulated and competitive tariffs (ANRE, 2013c).

**Figure 1. EU member state progress toward 2020 targets for RE share in total consumption**



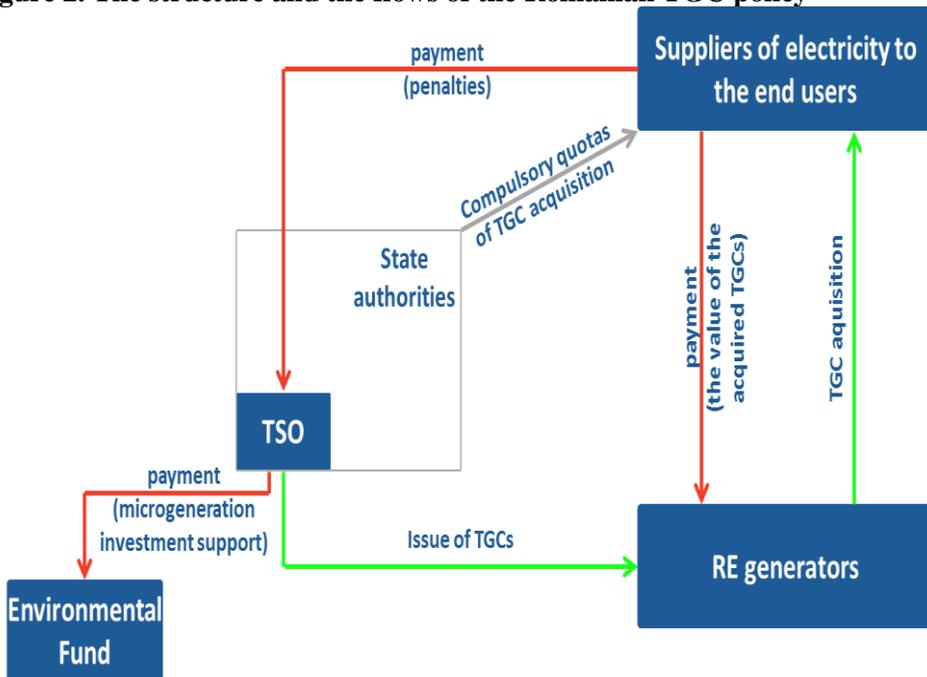
*Adapted from:* European Commission (2013c)

In order to understand the motivation behind Romania's choice of RE support mechanisms, we need to consider the advantages and disadvantages of the two main options (FIT and TGCs) as they were presented in the previous section. It was mentioned that FIT systems lead to a faster development of RE, but they can have a lower economic efficiency and they can create the need for significant investment in the grid infrastructure because of distributed generation. Thus, countries which are not necessarily seeking a rapid development of RE or which are not ready to invest in the grid development are likely to opt for TGCs instead of FIT, in order to encourage a more steady and controlled growth of RE mainly through large scale power generation projects. This has been the case of countries such as Belgium, Sweden, Norway and Poland. As it is the case for Belgium and Sweden, Romania was already close to reaching its 2020 RE share target at the end of 2010 (see figure 1), thus making the need to speed up the development of RE less imperative, while countries that are further away from reaching their targets, such as the United Kingdom or the Netherlands, have opted for a combination of several support policies, including FIT and TGCs (REN21, 2012).

The Romanian legislation regarding the promotion of RE production has seen a series of modifications over the years and, as a result, its implementation was postponed from 2008 (when the first relevant law was written) until 2011 – 2012 (when the last of the necessary laws and regulations were published) (ANRE,

2013a). The main reason for these delays was the rejection of the initial legislation by the European Commission due to the overcompensation it would have created for beneficiaries of the support mechanism (compared to other EU states) (ANRE, 2012b). In their final form, the policies establish a system that includes a market for green certificates and a methodology of awarding TGCs to RE generators (figure 2).

**Figure 2. The structure and the flows of the Romanian TGC policy**



*Adapted from: ANRE (2012b)*

As it can be seen in figure 2, the TGC system is administered by the Transmission and System Operator (TSO), Transelectrica SA, which issues certificates to RE generators. These certificates then have to be purchased by suppliers on the TGC market, depending on the imposed acquisition quotas established by the state authorities. However, the price of the TGCs on the market has an established floor cap of 27 EUR and also a ceiling cap of 55 EUR, both of which are indexed on a yearly basis with the inflation rate of the Eurozone, as reported by Eurostat (ANRE, 2012b). After the purchase, suppliers are allowed to transfer the cost of TGC acquisition towards the end users who are the ones ultimately supporting the entire RE policy.

Table 1 illustrates the specific period and amount of certificates which are awarded based on the technology category and the unit type. The differences are

generally motivated by the varied production and investment costs of the various categories of power plants. It should be noted that no certificates are awarded in the following instances:

- electricity produced from imported industrial/municipal waste or biomass
- electricity produced in hydroelectric plants which are part of a pumped storage application
- electricity produced in co-fired plants (usually using coal and biomass), if the proportion of conventional fuel is higher than 10% of the total combustion material
- electricity used for the internal consumption of the power plant.

**Table 1. The Romanian system for awarding TGCs**

<i>RE category</i>	<i>source</i>	<i>Unit type</i>	<i>TGCs awarded per MWh</i>	<i>Period (yrs.)</i>
Hydroelectric (installed capacity ≤ 10 MW)		new (operational from Jan-04)	3 TGCs	15
		restored/upgraded	2 TGCs	10
		other (operating before Jan-04)	0.5 TGCs	3
Wind		<i>new</i>	2 TGCs until 2017 1 TGC from 2018	15
		<i>reutilized</i>	2 TGCs until 2017 1 TGC from 2018	7
Geothermal		<i>new</i>	2 TGCs	15
Biomass		<i>new</i> (all types of bio waste)	2 TGCs	15
		<i>new</i> (from energy crops)	3 TGCs	15
		<i>high efficiency cogeneration</i>	1 extra TGC	15
Fermentation gas (waste /water processing mud)		new	1 TGC	15
Solar		new	6 TGCs	15

*Adapted from:* ANRE (2012b)

It is also worth mentioning that Romania also offers a stimulus for high efficiency cogeneration (heat and electricity) producers. The mechanism resembles a FIT system, awarding a bonus to each generator based on a specific methodology. As with the TGCs, the cost of the cogeneration stimulus is supported by the end users (ANRE, 2012a).

The information presented in this section is valid as of April 2013. However, the Romanian Government has recently announced that it wishes to review and modify both the TGC and the cogeneration support mechanisms mainly due to the rising cost of electricity bills, but also due to certain inefficiencies which were observed over the last few years. This will constitute part of the focus of the following section, which aims to provide an outlook for the Romanian energy regulations and for the overall European policies.

### 3. AN OUTLOOK FOR THE EU AND ROMANIAN ENERGY POLICIES

Previous research has shown that support mechanisms and related policies are necessary in order to insure the continued development of RE technologies (Maxim, Thoma, & Vlassopoulos, 2011). The same general conclusion is also illustrated in the IEA's World Energy Outlook 2012 (IEA, 2012). Thus, it is important to understand how these policies and regulations will evolve in the coming years, given that they will determine the manner in which the energy sector will develop.

In order to gain some insights into this subject, an exploratory study was undertaken in 2011, when several energy industry experts (most of whom represented large commercial organizations active in the European electricity sector) were invited to take part in in-depth interviews. In the end, we recorded the opinions of six specialists on five major issues considered relevant to the future of regulations in this industry (Maxim, 2011). The results of the study are summarized in figure 3.

**Figure 3. Medium and long term outlook regarding energy regulations**

Issue	Likelihood	Comments
Successor for the Kyoto Protocol		No clear arrangement, but multilateral agreements among the top CO <sub>2</sub> emitters are likely
Contingency regulations for reaching EU 2020 targets		Reaching 2020 targets is a domestic responsibility. EU wide contingency regulations are not likely to develop
EU will impose new, more strict regulations after 2020		A general roadmap to 2050 is being discussed. Milestones (2025, 2030...) not settled, but requirements are likely to become stricter
"Free market" approach to renewables		Pressure may rise from those affected by higher electricity costs. Total renewables support budget is likely to remain constant
New regulations will be non-GHG focused		Will likely focus on smart grid, electric vehicles, thermal rating for buildings, overcoming intermittent generation and other

 - very unlikely  - very likely

*Adapted from:* Maxim (2011)

As illustrated in figure 3, regarding the succession of the Kyoto Protocol, the experts concluded that a series of direct multilateral agreements among the main global polluters is more likely to emerge. This was somewhat confirmed by the partial failure to prolong the Kyoto Protocol with the Doha Amendment at the end of 2012.

With regard to the ever increasing probability that some states will not reach their 2020 targets for RE share, the interviewees generally agreed that the issuance of additional EU wide contingency regulations is unlikely, especially given the difficult economic situation of several member states. Reaching the 2020 targets is considered to be a national responsibility and it is expected that most countries will make an effort to compensate for any lagging by adjusting their internal policies, in order to avoid any supplementary pressure from Brussels.

It is expected that in the post-2020 period, regulations will become more strict – a necessary measure, given that IEA estimates for 2035 show an increase in global average temperature by 3.6 °C, caused by continual growth in GHG emissions (IEA, 2012). Even some developing states (which are expected to be the source of most GHG emissions increase over the coming decades) are displaying intentions to reduce pollution, even at the expense of reducing the pace of economic growth (Grammaticas, 2013).

The experts also agreed that the ER development could not continue in the absence of support mechanisms and regulations. It is to be expected that the current trends to finance and promote these energy sources will remain stable in the foreseeable future.

Finally, as it is also evident from the additions brought to the Kyoto Protocol in 2012, the experts considered that, the future will bring more regulations that deal with aspects of the energy sector other than GHG emission reduction. These could refer to increases in energy efficiency and grid stability or the promotion of new technologies such as smart grids and electric vehicles.

Over the last few years, Romanian energy policies in the field of RE have gone through many revisions and transformations. The end result was the TGC system which was presented in the previous section. However, after nearly two years of experience with RE support mechanisms, ANRE, the Romanian energy regulation authority, published a report which announced the start of another turbulent period in the area of RE policies. The document included a cost-benefit analysis of the energy sector, which concluded that, in order to avoid the overcompensation of RE generators, the number of green certificates to be awarded should be reduced by 50% in the case of solar energy, by approximately 25% for small hydroelectric plants and by 25% - 35% for wind energy (ANRE, 2013b) – a measure which would apply for new investors in the sector. The findings published in this report coupled with the noticeable rise in electricity prices, partly due to TGCs, prompted the Romanian Government to seek the “suspension” of the RE support mechanism, meaning that companies which have already invested in RE could see the number of TGCs

awarded to them reduced by up to 30% in the period 1<sup>st</sup> July 2013 – 31<sup>st</sup> December 2016, prompting a clear reaction from some energy investors (Popescu, 2013). One proposal is that the “suspended” TGCs could be awarded to the state owned TSO to support investments in grid infrastructure (a necessary step given the complications associated with distributed generation and the significant concentration of RE in the South-East of Romania) (Dan, 2013b). Since the financial difficulties affecting many European states have resulted in revisions to RE support mechanisms in other EU countries in the past, some RE investment specialists believe that such a measure would have a bigger impact on speculators than on serious investors, who will not be significantly discouraged by the policy revision (Popescu, 2013).

These changes are not expected to be the only ones affecting the Romanian energy policies. The Government has also announced that it will seek to change the rules of priority access to the grid in order to protect conventional energy generators. Specifically, electricity from some steam turbines will have priority over renewable energy in order to reduce the severe inefficiencies resulting from repeated start-up and shut-down of conventional power plants caused by intermittent RE flows (Pirvoiu & Pantazi, 2013).

Finally, another change which is to be expected in the Romanian energy policies, is a revision of the high efficiency cogeneration support mechanism. The ANRE is currently performing an assessment after which it will seek to modify the methodology for qualification and award of the cogeneration bonuses in order to avoid certain companies exploiting the system (Dan, 2013a).

## CONCLUSION AND IMPLICATIONS

It seems clear that the long term goal of the EU is to become “greener”. In terms of energy policy, this will mean continued focus on RE development and a gradual reduction of reliance on fossil fuels. However, the Russian gas giant Gazprom has repeatedly argued that gas can be a less expensive low carbon alternative to RE (Interfax, 2011, 2012). However, one needs to take into consideration that approximately one quarter of the gas which the EU uses is currently imported from Russia and this dependence is expected to increase significantly over the following decades if the current trends are maintained (Söderbergh, Jakobsson, & Aleklett, 2010). Such a situation creates two kinds of risk for EU states: transit risk (as seen in the past with the interruptions in supply due to conflicts which arose in the gas transit countries) and supplier risk (the potential to use energy dependence as leverage in applying political pressure). This raises an important question: is the EU energy policy more security than environmentally motivated? We will address the issue briefly in this section, but it is clear that such a discussion should represent the dedicated focus of future research.

The EU’s green energy policies are likely to give rise to tensions with parties such as Gazprom. Currently, more than half of Russian gas exports are addressed to

the EU (Interfax, 2012), but the output of several mature Russian gas fields is decreasing and there is limited investment in additional upstream production and transport infrastructure (Söderbergh et al., 2010). In order for investments in new field development to provide a satisfactory payback, Russian investors will need assurances regarding continued gas purchases by the EU in the foreseeable future. However, the EU's long term goal to reduce its reliance on all fossil fuels, including Russian gas, is problematic for companies from the EU's eastern neighbor.

It is unclear how this conflicting situation will evolve in the future, but for the time being the persistent financial difficulties that the EU is facing constitute the strongest argument in favor of Gazprom. However, on a more positive note, Boute and Willems (2012) provides a scenario in which Russia can invest in RE and export the electricity to Europe, thus resulting in almost no investment costs for the EU (compared to the more expensive and complex DESERTEC project) and the development of an RE industry in Russia with no extra cost of electricity for the local population. Overall, the scenario is considered a win-win, especially since it results in an overall cleaner environment.

As seen in the case of Romania and that of other member states, the development of energy policies is very much dependent on the economic environment. That being said, given the overall difficult situation that the EU is facing, it is time for Europe to decide whether or not it is willing to make a risky compromise in its energy strategy in order to temporarily relieve some pressure from its burdened population.

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# THE IMPACT OF TRANSACTIONAL AND RELATIONAL MARKETING ON CUSTOMER RETENTION IN THE ROMANIAN ECONOMIC ENVIRONMENT

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**Abstract:** *In many industries, customer retention is considered to be one of the prerequisites of a company's profitability, while satisfying customer needs is usually regarded as the first step towards customer loyalty. Retention and loyalty are even more important in times of economic crisis when customers tend to abandon their traditional suppliers' offerings in favor of cheaper alternatives. Companies use various marketing types, both from the transactional and the relational approaches, in order to attain higher retention rates. The aim of this paper is to investigate how Romanian companies perform in terms of customer satisfaction and retention and what types of marketing have a significant impact on these indicators.*

**Keywords:** transactional marketing, relationship marketing, customer satisfaction, customer retention.

## INTRODUCTION

The ultimate objective of all marketing activities is to generate profit. Customer retention and loyalty are two of the key factors that Gummesson (1999; 2008) identifies as being crucial for the attainment of this objective. These factors are even more important in times of economic crisis, when customers become more price sensitive and tend to switch suppliers more easily. And given the prolonged economic decline that Europe is facing, many businesses find themselves scrambling to attract and retain customers in the face of the low-cost alternatives such as imports from Asia and in-house supermarket brands.

There are several directions that businesses can pursue to expand their customer portfolios.

In the case of more basic goods and services, such as fast moving consumer goods or electronics, sales promotions, in the form of price reductions for example, provide a rapid, but short term solution. A drop in sales price has a significant effect on profitability and a sustained price war among the top competitors on a market ultimately leads to a lose-lose scenario. Moreover, one approach used by European companies in order to keep prices down has been to outsource most labour intensive activities to low-cost locations, while retaining their core business. Several European clothing companies as well as Romanian

electronics companies have outsourced their manufacturing activities to countries in East Asia in order to reduce costs. However, any large scale international relocation of manufacturing facilities can generate civil unrest and financial penalties against the company. In addition, the brand image can be impacted by scandals regarding poor conditions and worker exploitation in outsourcing factories. Finally, the development of “core business” abilities in the low-cost country through technology transfer, education and training is likely to generate additional market competitors for the original companies.

In the case of complex goods and services, such as security systems or industrial machinery, one available solution is that of “solution offerings” – not only selling the central product itself, but a complete package which includes all complementary products and services associated with financing, installation and operation. In this case, customers are attracted by the turnkey solution and are then retained due to switching costs (Egan, 2008).

A preferable alternative to the methods exemplified above is to build long term mutually beneficial relationships with the customers. The debate over the necessity of a relational approach in marketing that might complement the traditional marketing-mix approach begun in the difficult economic context of the ‘70s. The energy crises and the economic stagflation that followed led to a stop in the increase of the demand, a surplus of the production capacities and a raise of the raw materials’ costs. Several authors, such as Gummesson, Grönroos, Berry, Sheth, Hammarkvist, Håkansson or Mattson, considered that these socio-economic changes imposed a shift of the marketing efforts from the area of transactions to that of relationships

Nowadays, in a company’s marketing activities either a transactional approach or a relational one may be predominant. In order to assess companies on this dimension, professors Rod Brodie and Nicole Coviello from the University of Auckland, New Zealand developed the Contemporary Marketing Practices (CMP) framework (Brodie et al., 2008). Studies based on this methodology were conducted in more than 15 countries. However few of them have focused on European Union (EU) member states.

The aim of this paper is to use the CMP framework to assess the marketing profile of Romanian companies and to compare the performance of businesses that employ a relationship marketing approach with those using a transactional one. The preference of Romanian companies for various types of marketing is also compared with the situation from other countries. This is the first study to implement the CMP framework in Romania.

## 1. ANALYSIS FRAMEWORK

There are many studies that emphasize the importance of customer retention. Reichheld (1996), for example, argues that as the client-supplier relationship evolves, the two parties achieve better coordination of their activities, operational costs are lowered and the company's profit margin increases. Higher income may be obtained through cross-selling, bundling complex goods with services, increasing ordered quantities, recommendations to potential new customers and so on. However, retention rates are related to customer satisfaction, which in turn depends on how customers perceive the value of the company's offer.

First, an organization must understand how its clients define value. Grönroos (2007) suggests abandoning the idea that value is created by the company, included into its goods and services and then distributed to the buyers. In his opinion, customers perceive the value only as they start actually using the goods, services, information or personal interactions in their daily activities. Therefore, the role of the firm is no longer to produce and distribute value but to support customers' processes of value creation.

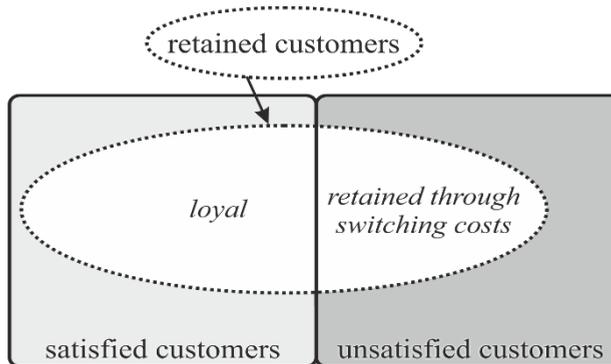
While customer satisfaction is essential, it represents only one step towards the goals of customer loyalty and retention. When using satisfaction as a predictor of loyalty, it is important to take into account the difference between those customers that claim to be "very satisfied" with a company and those that consider themselves to be just "satisfied". Gummesson (2008, p. 259) mentions a study which showed that 78.2% of very satisfied customers intend to continue their relationship with the current supplier, compared to only 20.9% in the case of the customers that are simply satisfied. Reichheld's (1993) studies support this idea as they show that between 65% and 85% of the clients that change their suppliers claim that they were very happy with their previous one.

Therefore, if a company is to improve its retention rate it should go beyond satisfaction and make customers feel enthusiastic about the relationship. This can be achieved if it is able to offer benefits that exceed those that the clients expected. Noriaki Kano created a model that provides three dimensions of satisfaction: basic needs, expected needs and excitement needs (Bergman and Klefsjö, 1994). He suggests that a company should fulfil the first two categories and then offer something more, something that the customer did not request but that would get him excited.

Finally it should be noted that not all retained customers are loyal customers and not all those loyal are satisfied (Figure 1). For various reasons, some customers continue a business relationship that they are not completely happy with. In this context, Egan (2008) analyses eight types of costs that a client may undergo when switching suppliers: search costs, learning costs, emotional

costs, inertial costs, risk, social costs, financial costs and legal costs. Also, Gummesson (2008) notes that there are cases of unsatisfied customers that remain loyal for nationalist or ideological reasons.

**Figure 1. The satisfaction-loyalty-retention relationship**



In order to investigate the relationship between satisfaction and retention performance and to identify the marketing types that have a significant impact on these indicators we have analysed the results of a broader study that we have conducted in order to acquire an overview of the commercial practices of the Romanian organizations. The study was based on the Contemporary Marketing Practices (CMP) methodology.

The CMP group developed a classification framework that includes nine dimensions of the way companies relate to their markets (Brodie et al., 2007):

- purpose of exchange: what the company wishes to obtain from its exchanges (profit, relationships, customer information etc.);
- nature of communication: parties involved and the nature of the communication;
- type of contact: personalised or standardised interaction between the company and the customer;
- duration of exchange: one-time, occasional or continuous interactions;
- formality in exchange: formal or informal interactions;
- managerial intent: marketing objectives;
- managerial focus: the elements that are the main concern of marketing planning;
- managerial investment: the activities or elements that the marketing resources are allocated to;

- managerial level: the level at which marketing decisions are taken and marketing activities are performed.

The first five of these are exchange dimensions, while the other four are managerial dimensions.

By taking into account these nine dimensions, the authors analysed both the specialised literature and the business practices of various organisations and identified five types of marketing which were representative for either a transactional or a relational approach. Transaction Marketing (TM) falls in the first category, while Database Marketing (DM), e-Marketing (eM), Interaction Marketing (IM) and Network Marketing (NM) are considered different forms of relationship marketing.

TM is typical for the fast moving consumer goods sector. Organisations active in such a market usually develop marketing mixes that target large segments of customers. Although many characteristics of those included in the various segments are known (e.g. socio-demographics, wanted benefits etc.), the individual customers remain relatively anonymous. Everyone in the segment is treated in a standardised manner and the company focuses on generating as many transactions as possible, not on building relationships.

DM involves the development and use of customer databases which allow companies to personalise different elements of the marketing mix. By gathering information about their buyers (e.g. name, address, date of birth, purchase behaviour) organisations may tailor their communication, product mixes or special offers to individual customer needs. However, DM (as well as TM) is still a form of marketing towards the customer and not with the customer (Coviello et al., 2001, p. 22).

eM goes a step further as it is based on dialogue between the customers and the company. Nevertheless, the communication is not personal, but facilitated by technology.

IM represents the essence of the relational approach. It is typical for small companies and for many service or business-to-business organisations. In time, their employees develop close, personal relationships with certain customers. These relationships result in increased efficiency as the two parties have a better understanding of each other's needs, trust one another and the customer is involved in the value creating process.

NM includes the network of relationships that the company establishes with various actors from its microenvironment (such as suppliers, distributors or even competitors). These relationships are mutual benefits to those involved as they are able to better serve the final customers. Top level managers are usually involved in these marketing activities.

These different practices are not mutually exclusive. Each organisation may use several of them, in a smaller or a greater proportion, and develop a portfolio of strategies.

## 2. RESEARCH METHODOLOGY AND SURVEY SAMPLE

This research was based on a survey that used the standard questionnaire applied in other CMP studies. The five exchange dimensions and the four managerial dimensions of the CMP framework were translated into a set of variables that corresponded to the five different types of marketing. In the end, the usage levels of TM, DM, eM, IM and NM were assessed by computing the mean of the nine formative items.

Given the complexity of the questionnaire used, convenience sampling was preferred to probabilistic sampling. This method is in line with previous CMP studies. The chosen organizations were small, medium or large, activated in various sectors and were based in different geographical locations. Almost half of the companies (48.6%) have been active on the Romanian market for at least 10 years and approximately three quarters (73.2%) were founded by Romanian investors. The sample was dominated by small (60.4%) and medium enterprises (27.4%). The final sample consisted of 142 companies based in Bucharest or in various counties of Moldavia or Transylvania.

The sample elements were chosen so that the collected data would be relevant. Most of the respondents (84.4%) were managers, while others (10%) were marketers. Nevertheless, 91.5% considered that their job was related to the company's marketing activities. In terms of education, 84.6% of those interviewed are university graduates and 54.6% claimed to have some form of marketing training.

## 3. RESULTS

### *a. Comparison of the predominant marketing types in Romania and other countries*

The usage levels of the five types of marketing were estimated by calculating an index with values between 0 and 1. Next, the organizations were grouped into three categories according to their usage level of every marketing type:

- low level: index value up to 0.60;
- medium level: index value between 0.61 and 0.80;
- high level: index greater than 0.80.

In Romania, almost half of the companies investigated (52.1%) have a medium or high usage level for TM. For DM the proportion is slightly higher (57.8%). Network marketing and interaction marketing are predominant, as 79.6% (NM) and 78.2% (IM) of the companies use them at a medium or high level.

**Table 1. Proportions of the companies with medium and high indexes levels (by countries)**

	<i>Romani a</i>	<b>Finlan d and Swede n</b>	<b>Russi a</b>	<b>Argentin a</b>	<b>Thailan d</b>	<b>New Zeelan d</b>	<b>Canad a</b>
<b>T M</b>	52.1%	70.6%	38.9%	74.0%	83.6%	80.5%	75.5%
<b>D M</b>	57.8%	80.4%	22.2%	57.3%	83.6%	77.8%	79.8%
<b>IM</b>	78.2%	88.2%	50.0%	75.0%	90.9%	91.81%	91.5%
<b>N M</b>	79.6%	74.5%	26.4%	61.4%	85.5%	74.1%	79.8%

*Source:* results for other countries from “Profiling contemporary marketing practice: cross national comparisons”, p. 4

*Note:* eM was not part of the CMP framework at the time some of these studies were conducted.

By comparing these results with those obtained in CMP studies in other countries (Table 1) it can be noted that Romania and Russia have the smallest proportion of companies that use TM in a medium or high degree. As far as DM and IM are concerned, Romania is similar to Argentina. However, Romania is differs from all other countries as the proportion of companies with medium-high levels of NM is higher than the proportion for IM.

Compared to the other two EU member states (Finland and Sweden), Romania has a much smaller proportion of companies that use TM (52.1% vs. 70.6%) and DM (57.8% vs. 80.4%).

*b. Verification of the relationships between marketing types and performance indicators*

The respondents were asked to evaluate on a 1 (never) to 5 (always) scale the measure in which their organization uses the following performance indicators: attraction of new customers, customer retention, customer satisfaction, sales growth, profitability and market share. Next, they had to estimate how the results were, compared to the expectations for those indicators, during the previous year. Responses were given on a 1 (much worse) to 5 (much better) scale.

The relationships between the six indicators were investigated using bivariate correlation analysis based on the Pearson coefficient (Table 2).

Companies’ performances on all six indicators are positively and significantly correlated. A natural and strong association can be observed

between the performance in attaining the desired market share and attracting new customers ( $r=0,605$ ) or retaining existing ones ( $r=0,538$ ). Customer retention performance is also strongly correlated to customer satisfaction ( $r=0,677$ ). This result offers support to the idea that retained customers are primarily satisfied customers. Another strong correlation exists between retention and attracting new clients ( $r=0,530$ ). This might be explained by the recommendations made by the existing satisfied customers. Profitability and retention present a medium strength relationship ( $r=0,497$ ).

**Table 2. Correlations between performance indicators**

	Marketing indicators			Financial indicators		
	<i>new customers</i>	<i>customer retention</i>	<i>customer satisfaction</i>	<i>sales growth</i>	<i>profitability</i>	<i>market share</i>
<i>new customers</i>	1,000	,530**	,474**	,601**	,471**	,605*
<i>cst. retention</i>		1,000	,677**	,377**	,497**	,538*
<i>cst. satisfaction</i>			1,000	,334**	,400**	,460*
<i>sales growth</i>				1,000	,632**	,471*
<i>profitability</i>					1,000	,459*
<i>market share</i>						1,000

\*\* correlation is significant at the 0.01 level

Correlations between the usage level for the five marketing types and organisations' performance on the six indicators were also examined.

As the results from Table 3 show, companies with higher levels of IM, eM and DM also report better customer retention and customer satisfaction performance. For these three marketing types, the correlation coefficients are positive and of medium strength (above 0.3). When it comes to new customer acquisition, TM, as well as the least "personal" forms of relationship marketing (i.e. DM and eM), present more powerful correlations than IM and NM.

**Table 3. Marketing types – performance indicators correlations**

	Marketing indicators			Financial indicators		
	<i>new customers</i>	<i>customer retention</i>	<i>customer satisfaction</i>	<i>sales growth</i>	<i>profitability</i>	<i>market share</i>
<b>TM</b>	<b>.324**</b>	<b>.298**</b>	<b>.235**</b>	.080	.156	<b>.242**</b>
<b>DM</b>	<b>.369**</b>	<b>.430**</b>	<b>.339**</b>	.099	.142	<b>.360**</b>
<b>eM</b>	<b>.332**</b>	<b>.439**</b>	<b>.395**</b>	.101	.121	<b>.346**</b>
<b>IM</b>	<b>.200*</b>	<b>.310**</b>	<b>.343**</b>	.142	.152	<b>.183*</b>
<b>NM</b>	<b>.189*</b>	<b>.220*</b>	<b>.230**</b>	-.053	.058	.101

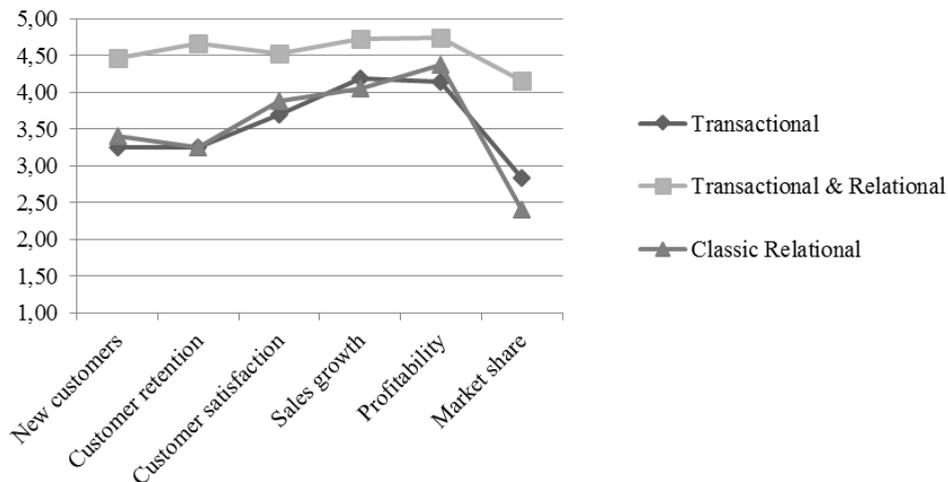
\* correlation is significant at the 0.05 level

\*\* correlation is significant at the 0.01 level

Sales growth and profitability show positive, but weak and non-significant correlations with all marketing types

### c. Clustering of Romanian companies based on marketing profile

By taking into account the way they combined marketing practices, companies were grouped with the purpose of establishing general profiles. K-means cluster analysis was performed and a solution with three clusters was found to be most adequate.

**Figure 2. Companies' usage of performance indicators (by clusters)**

The first cluster was denominated “Transactional” as it has a TM index average equal to that of the entire sample and eM, IM and NM indexes averages

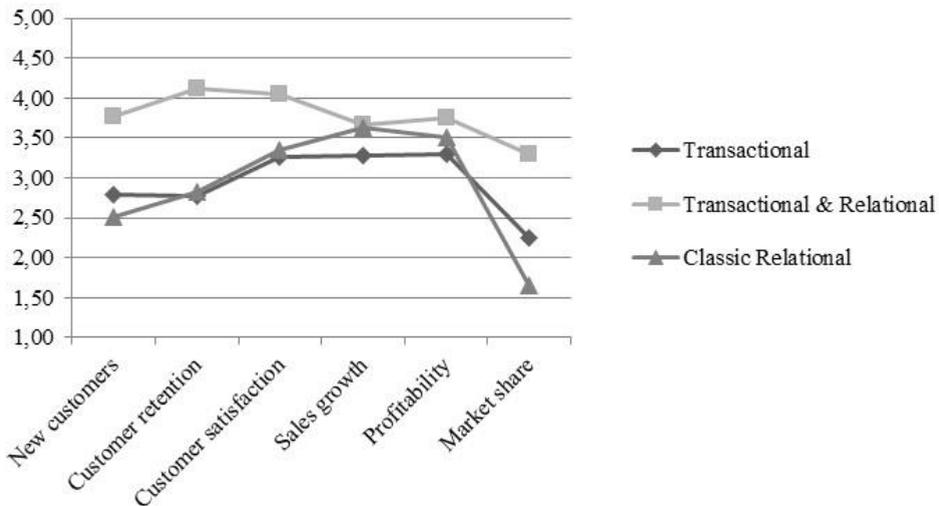
well below those of the sample. The second cluster was entitled “Transactional & Relational” as it presents average values above those of the sample for all five marketing indexes. The third cluster was named “Classic Relational” as it is characterized by above sample average values for IM and NM and by well below sample average values for TM, DM and eM.

The customer retention rate is rarely used by the transactional and the classic-relational companies (Figure 2). The most frequently used indicators are the profitability and the sales growth. The majority of the companies investigated tend to ignore market share as they consider it difficult to estimate.

#### *d. Analysis of company performance*

Firms from the Transactional and from the Classic Relational clusters achieved results that were close to their expectations, as far as the customer satisfaction, the sales growth and the profitability were concerned (Figure 3). The results of the transactional-relational companies were above expectations for all indicators.

**Figure 3. Companies’ results for the performance indicators (by clusters)**

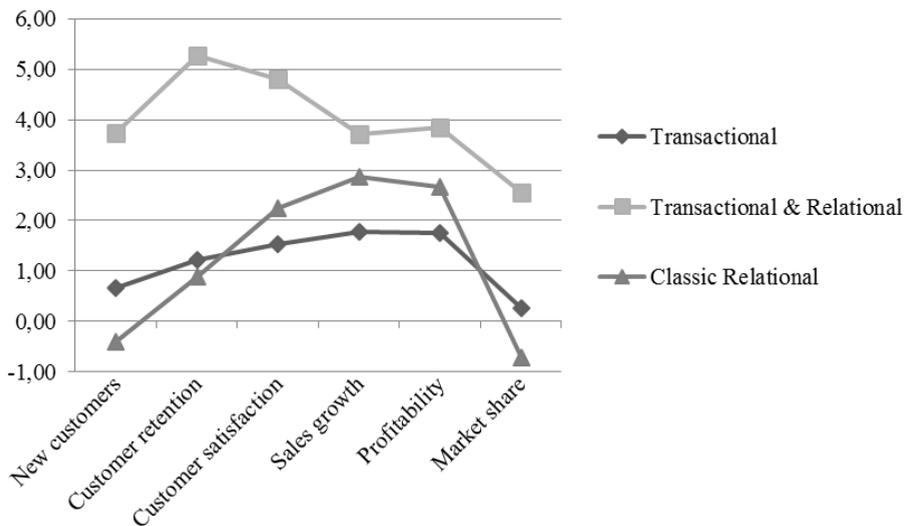


The usage information and the results/expectations information were combined in order to compute a performance index for each of the six indicators. The range of the index was from -10 to 10 with negative values indicating a lack of performance.

Companies from the Classic-Relational cluster had superior performance with regard to customer satisfaction, sales growth and profitability compared to

transactional companies (Figure 4). The organizations from the Transactional & Relational cluster present the highest levels of performance for all the investigated aspects. This is partially explained by the fact that they use intensively all the five marketing practices. Their highest performance level is that of customer retention.

**Figure 4. Companies' performance by clusters**



## CONCLUSIONS AND DISCUSSION

The continuing economic decline affecting the EU has raised the price sensitivity of customers and has increased the incidence of supplier switching. European companies have a limited capability to compete with low-cost competitors from outside the EU in the long term. Cost cutting measures and the relocation of manufacturing activities have led to high unemployment and civil unrest. A relationship marketing approach that would complement the transactional orientation might provide a sustainable long term solution to increasing customer retention and satisfaction, regardless of the overall state of the economic environment.

The results of this study confirm the previously presented ideas concerning the relationship between satisfaction and retention. In the case of Romanian companies there was a strong relationship between customer retention performance and customer satisfaction performance. Moreover, organizations

with higher retention rates were also more profitable and performed better in attracting new customers.

Relationship marketing approaches such as Database Marketing, e-Marketing and Interaction Marketing presented the most powerful positive associations with retention and satisfaction.

However, these practices do not seem to be sufficient. The highest performance in retention was observed in the case of the companies that practice all marketing types (Transactional & Relational cluster), while the predominantly relational organizations were no better than the transactional ones. Most of the Finnish and Swedish companies analysed reported medium or high usage levels for all marketing types (more than 70% of the companies for each marketing type). Proportions are lower in Romania, especially in the case of Transaction Marketing and Database Marketing.

Each type of marketing has its own strengths and weaknesses. Depending on their markets and industries, companies should try to achieve an optimal combination of both transactional and relational practices that would increase their customer satisfaction and retention levels, which ultimately impact their profitability.

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## **FIGHTING BUSINESS CORRUPTION BEYOND BORDERS: THE EUROPEAN PERSPECTIVE**

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**Abstract:** *Combating corruption in international business transactions has recently gained traction as nations have expanded the reach of their anti-bribery laws to include corrupt acts by their nationals outside their boundaries. Corruption is increasingly seen an international ill that weakens governments, distorts trade, fosters instability, accentuates inequality, and, most cruelly, crushes the most vulnerable, the poor. Although corruption occurs throughout the world, anti-corruption initiatives, on paper and in practice, vary from nation to nation. Yet, from west to east, expansive and comprehensive anti-corruption initiatives are taking hold, including in Europe. In Europe, the EU and the OECD have raised the standard and the urgency for tackling corruption. However, to date, these initiatives continue to fall short of their promise and their potential. In countries such as Romania where corruption is endemic, the impulse to address corruption has been numbed by rhetoric, unsupported by action and by laws and a legal system not up to the task. In short, while others have set the direction, Romania has not picked up the challenge. This challenge must be seized, however, and now is the time for Romania to move in the direction that the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act have taken.*

**Keywords:** business corruption, corrupt practices, international bribery, business ethics.

### **INTRODUCTION**

Corruption is a worldwide disease that weakens governments, distorts trade, fosters instability, accentuates inequality, and, most cruelly, crushes the most vulnerable—the poor. Corruption is widespread in Southeastern European countries, where a cumulus of these factors permits it to exist. There and elsewhere, bribery is the most common manifestation of corruption, so common as to sometimes be a part of everyday life, thus deterring in economic growth and social progress.

Fighting domestic and international corruption has become a priority for most governments and international organizations. New anti-corruption

legislation, such as the U.K. Bribery Act, and more vigorous enforcement of longstanding laws, such as the U.S. Foreign Corrupt Practices Act (FCPA), are drawing attention to corruption and its consequences. Multiple-pronged strategies to fight corruption are focusing on transparency and accountability in political activities; transparency, accountability, and efficiency in public administration; sound business environments; and openness in society (Anderson et. al, 2001, p. xiv).

Some of the impetus for these developments has come from international legislation directed at fighting corruption in the international marketplace. Prominent among this legislation are the United Nations Convention against Corruption (UNCAC), the Organization for Economic Cooperation and Development Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (OECD Anti-Bribery Convention or OECD Convention), and the Council of Europe Criminal and Civil Law Convention on Corruption. The respective bodies that drafted these conventions were influenced by pre-existing national laws, most notably the FCPA. And, in turn, their work has influenced the enactment of new national laws, most notably the U.K. Bribery Act.

As elsewhere in the world, European countries are reacting to these international efforts to fight corruption. Many have signed and ratified the UN and OECD conventions against corruption, and most are involved in different programmes that are targeting the causes and effects of corruption. The leaders in this fight are Germany, the United Kingdom, Denmark, and Norway. These countries also are leaders in the European Union's efforts to fight public and private sector corruption. However, the results are not always matching expectations, either in Europe or globally.

## **1. OECD LEADERSHIP**

The Organisation for Economic Co-operation and Development (OECD) is a global leader in fighting bribery in international business and other forms of corruption. The OECD Anti-Bribery Convention is its best-known anti-corruption instrument. The OECD acted as the result of United States pressure to induce other nations to enact anti-bribery legislation so that U.S. businesses would not be at a competitive disadvantage when doing business abroad. Having enacted the FCPA in 1977 after investigations resulting from the Watergate scandal revealed that major U.S. corporations were bribing foreign officials worldwide, the U.S. was the first nation to adopt an anti-bribery law with an extraterritorial reach. Thus, under the FCPA, U.S. businesses face criminal and civil penalties for bribing foreign officials anywhere in the world. When the OECD Convention's negotiating committee completed its work in 1997, the

FCPA was the world's only explicitly extraterritorial anti-bribery law (Darrough, 2004, p.1).

The FCPA contains anti-bribery and business accounting and records provisions. It criminalizes the act of corruptly offering, paying, promising or authorizing to pay money or anything of value to a foreign official in the exercise of his or her official duties to assist the payor in obtaining or retaining business or directing business to any person (15 U.S.C. §§ 78dd-1(a)(1), 78dd-2(a)(1), 78dd-3(a)). It also requires certain businesses, domestic and foreign, to "make and keep books, records, and accounts which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the [company's] assets" (15 U.S.C. §§ 78m).

Persons subject to the FCPA include an "issuer, meaning any company whose securities are registered in the United States or which is required to file periodic reports with the U.S. Security Exchange Commission. Also covered is any "domestic concern", meaning any individual who is a citizen, natural or resident of the United States and any corporation, partnership, association, joint-stock company, business trust, unincorporated organization, or sole proprietorship which has its principal place of business in the United States, or which is organized under the laws of a state of the United States, or a territory, possession, or commonwealth of the United States. Finally, any other person who takes any act in furtherance of the corrupt payment while within the territory of the United States is subject to a FCPA prosecution.

The FCPA applies to bribes offered, paid, promised or authorized to be offered, paid, or promised to a foreign official, a political party, a party official, a candidate for foreign political office (15 U.S.C. §§ 78dd-1(a)(2), 78dd-2(a)(2), 78dd-3(a)(2)) or third parties acting as intermediaries for foreign officials can be prosecuted if they know about the corrupt nature of the payments (15 U.S.C. §§ 78dd-1(a)(3), 78dd-2(a)(3), 78dd-3(a)(3)).

The definition of "foreign official" is broad, encompassing "any officer or employee of a foreign government or any department, agency, or instrumentality thereof, or of a public international organization, or any person acting in an official capacity for or on behalf of any such government or department, agency, or instrumentality, or for or on behalf of any such public international organization" (15 U.S.C. §§ 78dd-1(f)(1), 78dd-2(h)(2), 78dd-3(f)(2)).

The FCPA admits one exception and two affirmative defenses. The exemption consists in "facilitating or expediting payments to secure performance of a routine governmental action by the recipient" (15 U.S.C. §§ 78dd-1(c)(1), 78dd-2(c)(1), 78dd-3(c)(1)) such as payments to obtain permits, licenses, or other official documents and to receive services such as visas, work orders, police protection, mail, telephone, utilities, etc. The two affirmative defenses are payments expressly permitted by the written laws of the host country; and "reasonable and *bona fide* expenditures, directly related to the promotion,

demonstration, or explanation of products or services; or the execution or performance of a contract with a foreign government or agency” (15 U.S.C. §§78dd-1(c)(2), 78dd-2(c)(2), 78dd-3(c)(2)).

The FCPA’s criminal and civil sanctions apply to natural persons and legal persons. An individual can be imprisoned up to 5 years and fined up to \$100,000, or both, per violation. Legal persons face a fine up to \$2 million per violation. The civil sanctions include monetary penalties, disgorgement, loss of government contracts, licenses, and debarment. In addition, offenders can suffer damage to their reputations.

The FCPA enforcement’s success is reflected in the high number of cases prosecuted against well-known companies. To date, Siemens has paid the largest penalty, \$800 million, which it paid in 2008.

To reduce their risks of liability, companies have created their own internal anti-bribery systems based on the much anticipated FCPA Resource Guide that published in November 2012 by the U.S. Department of Justice and the U.S. Securities and Exchange Commission. Although not perfect, the FCPA was and still is a good model to follow in shaping an anti-bribery legal framework for international transactions.

With the FCPA as the model, the OECD Convention was negotiated fifteen years ago. Now ratified by 40 nations, the OECD Convention’s parties include the world’s leading economic powers, collectively accounting for 80% of the world exports and 90% of global outflow of the foreign direct investments (OECD Report, 2012, p.7). These nations are obligated to enact national laws that criminalize the bribing of foreign officials to obtain a business advantage. Unlike the UN Convention against Corruption, OECD Convention does not contain provisions directly addressing the demand side of bribery; its provision only address the supply side—the offering of bribes.

As does the FCPA, the OECD Convention seeks to create national laws having extraterritorial jurisdiction for offences committed abroad. Specifically, it provides that “[e]ach party which has jurisdiction to prosecute its nationals for offences committed abroad shall take such measures as may be necessary to establish its jurisdiction to do so in respect of the bribery of a foreign public official, according to the same principles.” (OECD Convention, Art. 4(2)). Also like the FCPA, the OECD Convention contains anti-bribery provisions and accounting provisions. The latter are intended “to prohibit the establishment of off-the-books accounts, the making of off-the-books or inadequately identified transactions, the recording of non-existent expenditures, the entry of liabilities with incorrect identification of their object, as well as the use of false documents, by companies...for the purpose of bribing foreign public officials or of hiding such bribery. (OECD Convention, Art. 8(1)).

The OECD Anti-Bribery Convention has spurred most of its signatories to develop domestic laws according to its requirements. Because these laws flowed

from the Convention's requirements, they are more or less similar with each other. This facilitates mutual legal assistance and cooperation among these states. Adding to these complementary effects, enforcement at the state level is guided by the OECD's 2009 Anti-Bribery Recommendation, which is meant to strengthen countries' capacity to prevent, detect and prosecute allegations of foreign bribery (OECD Report, 2012, p.4). In addition, the 2010 OECD Good Practice Guidance on Internal Controls, Ethics and Compliance provides useful information to companies for preventing and detecting foreign bribery in their international business activities.

The OECD Convention's efficiency is promoted further by the OECD's monitoring of enforcement at the state level. Specifically, the OECD Working Group on Bribery (WGB), an intergovernmental body, periodically assesses the Convention parties' progress in fighting foreign bribery. This peer-review evaluation ensures to a notable degree the OECD Convention's effectiveness. Under it, country monitoring has three phases, pointing out the positive and negative sides of implementation. Phase 1 evaluates the adequacy of a country's legislation to implement the Convention. Phase 2 assesses whether a country is applying this legislation effectively, and Phase 3 focuses on enforcement of the Convention, the 2009 Anti-Bribery Recommendation and recommendations from Phase 2.

Implementing the OECD Convention's convergent standards also is fostered by a network of prosecutors from the 40 signatory states that meet under the auspices of the WGB. These meetings are for facilitating the exchange of information, consolidating technical expertise and, ultimately, building trust (Spahn, 2012, p.8). Cross-border cooperation for investigation and prosecution is essential in combating any transnational crime, including bribing in international business transactions. As essential as it is, realizing it is not without obstacles because of the asymmetry of national judicial systems.

The OECD WGB's efforts are supplemented by the work of their G20 partners, who are implementing G20 Anti-Corruption Action Plan. This Plan aims "to sustain worldwide the adoption of the UNCAC and national laws against bribery of foreign public officials, to prevent access to corrupt officials to the global financial system, to create a cooperative framework to deny entry to corrupt officials, to facilitate extradition and asset recovery, to protect whistleblowers, to safeguard anticorruption bodies and to encourage public-private partnerships to tackle corruption" (G20, 2011, p.7). The G20 is, in fact, engaging the governments of the major emerging economies that are not parties to the OECD Convention. In this way, irrespective of their economic power or geographical position, the world's countries are being urged—and sometimes pressured—to join the fight against international bribery for commercial purposes.

A long-time supporter of anti-corruption efforts is Transparency International. This nongovernmental organization complements the OECD Convention's goals by independently monitoring the corruption level in countries around the world.

Attracting the academic world into the same fight is also part of the strategy. Different activities took place under the Anti-Corruption Strategy for the Legal Profession, launched in 2010 as a joint effort by the International Bar Association (IBA), OECD and United Nations Office on Drugs and Crime (UNODC). The OECD is also supporting an Anti-Corruption Academic Initiative (ACAD), an academic project led by a group of anti-corruption experts coordinated by Northeastern University from the U.S. and the UNODC. It also supports numerous other international projects focused on combating corruption. For example, the OECD Working Group on Bribery and the World Bank / UNODC Stolen Asset Recovery Initiative (StAR) published a typology report on the identification and quantification of the proceeds of active bribery in international business transactions (OECD, 2011, p. 31).

However, according to the most recent WGB report, the results have not always met the goals. In 2012, the OECD criticized three EU members that are widely considered to have modern, democratic and trustworthy justice systems: Austria, the Netherlands, and Spain. This proves that the OECD is unsparing in its anti-bribery fight, including toward EU members. No European country is corruption-free or is ever likely to be. Yet, not all EU countries have committed themselves fully to the OECD Convention's goal of putting an end to bribing, including bribing foreign political officials to obtain a business advantage.

## **2. THE EU SITUATION**

According to a recent Transparency International report, "political parties, public administration and the public sector are evaluated as the weakest players in the fight against corruption across Europe" (Mulcahy, 2012, p.3). Other reports draw attention on the size of the problem. For instance, a recent report shows that the EU loses 120 billion euro to corruption annually. Public corruption practices are the source of most losses, 20 to 25% of the value of public contracts may be lost to corruption each year, while "public procurement contracts in the EU have an estimated worth of around 15 percent of the EU's total GDP" (Nielsen, 2013, p.1).

However, private sector corruption is just as dangerous and virulent. That is why most European countries, including EU members, have modeled their legislation on the OECD Convention and the Council of Europe Criminal Law Convention on Corruption and its additional protocol (COE).

In 2003, the EU released its Framework Decision on combating corruption in the private sector, aiming to criminalize active and passive bribery. The

Framework Decision's Article 2(1) includes profit and non-profit business activities. According to Article 2(a), "active bribery" is "promising, offering or giving, directly or through an intermediary, to a person who in any capacity directs or works for a private-sector entity an undue advantage of any kind, for that person or for a third party, in order that that person should perform or refrain from performing any act, in breach of that person's duties". "Passive bribery" is defined in art.2 (b) as "directly or through an intermediary, requesting or receiving an undue advantage of any kind, or accepting the promise of such an advantage, for oneself or for a third party, while in any capacity directing or working for a private-sector entity, in order to perform or refrain from performing any act, in breach of one's duties".

Monitoring, however, revealed discouraging results. In 2007, the European Commission concluded that only Belgium and United Kingdom had complied. However, by 2011, nine EU members had transposed all elements of the offense in their legislation. Romania was not one of them. Romanian legislation was criticized for missing in the incrimination text of active bribery the reference of "a third party advantage". Also, at that time Romania had not fully transposed Article 4 regarding penalties and other sanctions. However, Romania is one the 15 countries that transposed Article 5 concerning liability of legal persons, Article 6 regarding their penalties, and, partially, Article 7 regarding jurisdiction, though the information provided was not conclusive.

Unfortunately, the Commission concluded in 2011 that there could not be any practical impact evaluation of the decision transposed by member states due to their lack of statistics and figures on cases of private sector corruption. The most problematic areas were those referred by Article 2 and 5, the definition of the offense and the liability of legal persons (EC Report, 2011, p.8).

Consequently, the same year, the European Commission set up an anti-corruption reporting mechanism to periodically assess EU member efforts to fight corruption. This was part of the Stockholm Programme that established a partnership with the Council of Europe Group of States against Corruption (GRECO) designed to create a comprehensive anti-corruption policy. This mechanism "will also facilitate the exchanges of best practices, identify EU trends, gather comparable data on the EU 27 and stimulate peer learning and further compliance with EU and international commitments" (EU Anti-Corruption Report, 2011, p.2).

Judicial and police cooperation are vital for enforcing all measures taken at national and organizational level. The EU has the advantage of the already functional Europol that facilitates the law enforcement operations, the Eurojust that facilitates the exchange of judicial information on transnational corruption cases, and the EU contact-point network against corruption (EACN) that will focus on operational issues of relevance for corruption investigators.

However, there is much work to be done by member states both at the national and the organizational levels. For example, recently the OECD in its Phase 3 reports criticized Austria, the Netherlands, and Spain for their poor anti-bribery enforcement. Austria's anti-bribery law enforcement was criticized as "far too weak", the Netherlands was criticized for "failing to vigorously pursue foreign bribery allegations", and Spain was criticized for its "extremely low" anti-bribery law enforcement. Neither Austria nor Spain has convicted anyone, either a natural or a legal person, since 1999, when the Convention entered into force. The Netherlands has left 14 out of 22 allegations uninvestigated (ABA, SIL, 2013, p.1). France was criticized for the same reasons in February 2012 because since 2000, when France ratified the Convention, it had launched only 33 criminal investigations for bribing a foreign public official and had obtained only 5 convictions, notwithstanding the large role that French companies are playing in global economy. Thirty-eight allegations against French companies remain uninvestigated (IBA, 2013, p.17).

But there is good news, too. One of the most comprehensive European anti-bribery laws is the U.K. Bribery Act of 2011. GRECO praised the U.K. for its efforts to fight bribery (GRECO, 2013, p.1). The Bribery Act is similar to the FCPA, and it is in accord with the provisions of OECD's anti-bribery convention that was ratified by the U.K. in 1998.

The U.K. Bribery Act combines the fight against domestic and international corruption, detailing four separate offences: paying bribes (Section 1); receiving bribes (Section 2); bribing a foreign public official (Section 6); and failing as a commercial organization to prevent bribery (Section 7). Section 6 addresses bribing foreign officials by prohibiting the offering, promising or giving a financial or other advantage to a foreign public official with the intention of influencing the official in the performance of his or her official functions and thereby intending to obtain or to retain business or a business advantage. Compared to the FCPA provisions, the U.K. Bribery Act contains one exception - when payments are permitted or required by the local written law - but no affirmative defences. Section 7 of the U.K. Bribery Act creates a unique offence so far, criminalizing the failure of commercial organizations to prevent bribery. By its broad language, Section 7 stretches the law even more than FCPA, which contains no such provision. This provision encourages companies to be proactive and implement their own internal control systems for a bribery-free business environment.

The U.K. Bribery Act and the FCPA are good examples for any European country to use, especially for Southeastern European countries, including Romania, where the fight against corruption is still highly problematic.

### 3. CENTRAL AND EASTERN NEIGHBORHOOD

International cooperation is imperative because of the transnational nature of business corruption. Synchronized legislation, information sharing, and cooperative enforcement are essential.

The Southeastern European countries, including the region's non-EU members, are involved in the fight against corruption but, in general, they are not keeping pace with other European countries, mostly in enforcement.

The Czech Republic, Greece, Romania, Slovakia, and Slovenia stand out among countries perceived to have increased corruption (Mulchany, 2012, p. 9). Since 2004, when the Czech Republic, Hungary, and Slovakia joined the EU, they have been regressing in the fight against corruption. In spite of having relatively robust legislation, their enforcement is poor.

Estonia, Lithuania, Poland, and Slovenia have made good progress in consolidating the fight against corruption. But the business and civil society sectors in these countries are relatively weak, affecting the integrity of the system (Mulchany, 2012, p. 14).

Romanian corruption is endemic and systemic, and the fight against it is still timid, to put it mildly. While others have set the direction, Romania has not picked up the challenge, at least not yet. According to the latest Transparency International report, Romania and Bulgaria "continue to be the greatest cause for concern regarding the anti-corruption framework. A plethora of laws have been passed in both countries, under the watchful eye of the EU institutions, but this flurry of legislative activity has not been accompanied by the widespread adoption of ethical norms, actions and behavior" (Mulcahy, 2012, p.13).

Romania's legislation against bribery should be improved by provisions that criminalize the bribery of foreign public officials. Romania is still not an OECD member, and it did not sign or ratify the OECD Convention. It has ratified only the UN Convention against Corruption and the Council of Europe Criminal and Civil Law Conventions on Corruption. As an EU member, Romania partially transposed the Framework Decision on combating corruption in the private sector. However, so far, Romania is not among the 12 EU members that have criminalized active or passive bribery. Nor is it among the 9 countries that have criminalized both. Still, Romania professes to have an anti-corruption strategy that lists a bribery-free business environment among its priorities.

Anti-corruption cooperation in Central and Eastern Europe is also sustained and coordinated by the OECD, the UN, and other international organizations. Thus, the Istanbul Anti-corruption Action Plan (ACN) initiated by the OECD has attracted Eastern European and Asian countries into the fight. Their anti-corruption reforms are being monitored and supported. Ukraine is one of the beneficiaries of this sub-regional initiative.

Under the umbrella of the same action plan, the OECD and the UN have encouraged other countries to join anti-corruption action in the region. Albania, Belarus, Bulgaria, Croatia, the former Yugoslav Republic of Macedonia, Moldova, and Montenegro have benefited from the exchange of information on their respective achievements and from examples of good practices for preventing and combating corruption (OECD, 2011, p.37).

Strengthening cooperation between national institutions directly involved in investigating and prosecuting corporate bribery cases is one of the OECD priorities under the ACN. Prosecutors, judges and business representatives from Ukraine, Moldova, Poland, and Hungary have attended training seminars and round tables. A training manual on the investigation and prosecution of corruption, including a case-study with elements of corruption and money-laundering was developed in co-operation with the Basel Institute on Governance and was disseminated among the representatives.

In spite of these efforts and some encouraging results, 74% of Europeans still perceive corruption as a major problem in their country (Eurobarometer, 2012, p.7).

## CONCLUSIONS

Corruption is a widespread disease that burdens economic development and undermines the prospects for good governance. The European space has not avoided infection. On the contrary, especially in Southeastern Europe, old habits triggered by an inherited social mentality, poverty, political instability, lack of education, lack of information, and lack of law and its enforcement has hobbled anti-corruption efforts. As a result, financial resources are being siphoned from the public to enrich the bribers and the bribed. Now, more than ever, is time to react.

The OECD and the U.S. took the lead of this fight. Laws for criminalizing the bribery of foreign public official are sprouting all over the world, including in Europe. Progress has been made, but this progress has been slowed by incomplete legislation and lack of enforcement.

Romania has a gigantic task ahead, as do other nations. Legislation against corporate bribery modeled on the FCPA and the U.K. Bribery Act and responsible enforcement should be persistently and vigorously advanced by the OECD, the Council of Europe and the EU. The goal of a largely corruption-free European market is achievable.

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# THE STRUCTURAL CHANGES OF THE REGIONAL EXPORT SPECIALIZATION PROCESSES IN ROMANIA

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**Abstract:** *In order to observe the structural changes of the export specialization processes in Romanian regions, compared to the European Union (EU-27) during the 2000-2011, I used the regional and EU data pertaining to exports organized on sections of the Combined Nomenclature. The analysis involved, during the first part, studying the convergence potential and the stability in time of the comparative advantages of the export specialization processes, and for that purpose I built regression equations in which I used the Dalum indices of specialization from 2000 and 2011, while in the second part, in order to observe the structural changes of the regional distribution of comparative advantages I used the probabilistic analysis. The results of the analysis show the fact that in most Romanian regions, even if the export specialization processes have remained the same on average, there were, however, modifications in their structure and a convergence process of the export specialization compared to the EU-27, especially during the last years.*

**Keywords:** export specialization, Dalum indices, transition probability matrix.

## INTRODUCTION

The assessment of the structural changes of the export specialization processes in Romanian regions is necessary for the diagnosis of certain regional economies which suffered great structural changes during the last 11 years, in a wish to be competitive on the European Union market.

### 1. DATE AND METHODOLOGY

In the analyses carried out, I started from the *regional database* of the National Institute of Statistics and *EU-27 database* (EUROSTAT, matrix EU27 Trade Since 1988 By CN8 on the server ComExt), in which the *export trade flows* for the period of time 2000-2011 are organized on the *19 sections of the Combined Nomenclature (CN)*.

As to the analysis of the data, *the first approach used in studying the dynamics of the specialization process* supposed assessing the stability in time of the comparative advantages in the specialization processes compared to the EU-27

(Dalum B., Villumsen G. 1996, p. 15; Stehrer R., Worz J., 2003, p. 211). It supposes building a regression equation in which the independent variable represents the comparative advantages existing at the beginning of the period subjected to the analysis (2000), and the dependent variable shows the advantages existing at the end of this period (2005 and 2011 respectively) (Zaghini A., 2003, p.16). The indicator that best shows the comparative advantages of the specialization processes pertaining to regional exports is the specialization index offered by Dalum, Laursen, Villumsen (Dalum B., Laursen K., Villumsen G., 1998, p. 428). Consequently, the equation is:

$$DLe_{2011} = \alpha + \beta DLe_{2000} + \varepsilon$$

Where:  $DLe_{2011}$  și  $DLe_{2000}$  = Dalum indexes for export for 2011 and 2000 respectively

$\alpha$  și  $\beta$  = parameters of the linear regression equation

$\varepsilon$  = residual error

According to the value of the regression parameter ( $\beta$ ) we can conclude if export specialization in a certain region increased or decreased respectively in the case of those products where there was already an advantage or a disadvantage respectively and in this situation there is a divergence process compared to the EU-27 ( $\beta$  is higher than 1), if on the average the regional export specialization processes remained the same thus a convergence process taking place ( $\beta$  is between 0 and 1) or if the export specialisation reversed ( $\beta$  is lower than zero). By comparing the regression parameter ( $\beta$ ) with the correlation report (R), we can notice if the export specialization on regional level increased ( $\beta > R$ ) or decreased ( $\beta < R$ ).

***The second and more recent approach for the study of the dynamics of specialization processes*** is based on tools successfully used in the comparative studies and which were transferred to the analysis of the specialisation processes by Redding (Redding S., 2002, p. 309-315). Unlike the first approach, which assessed the dynamics of specialization from the point of view of the evolution of one indicator, this type of analysis accurately observes the structural modifications in time, since the whole distribution is analyzed. The starting point is the building of ***the transition probability matrix for exports*** (Brasili A., Epifani P., Helg R., 2000, p. 248). It implied dividing the sections in the CN into 5 categories (according to the values of the quintiles for the Dalum indexes per section), and in order to observe as well as possible *the dynamic of the specialization processes* we preferred to build two matrixes: one to follow the evolution between 2000 and 2005 and another one between 2000 and 2011.

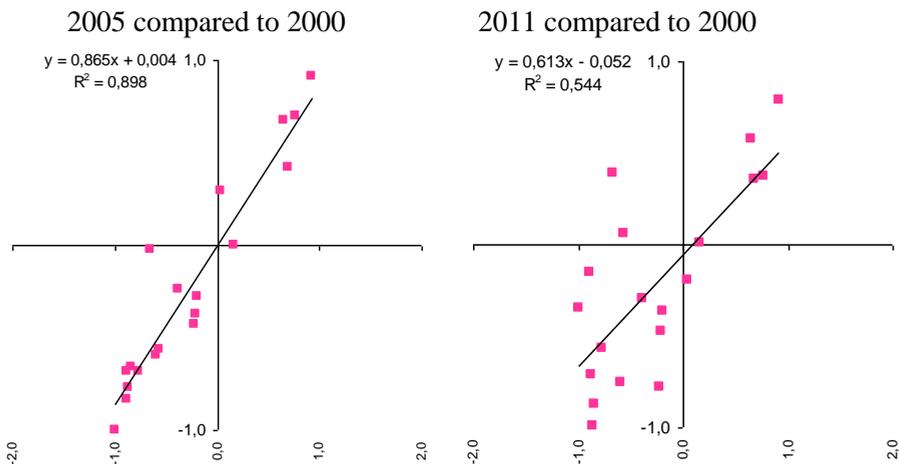
## 2. STRUCTURAL CHANGES OF EXPORT SPECIALIZATION PROCESSES

Even though in most regions *the export specialization processes did not suffer significant modifications*, the structural modifications of the specialization processes are different from one region to another; that is why it was advisable to perform a detailed analysis for each separate region.

### e. The North-West Region

In this region, *the export specialization processes* recorded modifications especially during the last 6 years, since *during the first 5 years (2000-2005)* the values of the regression parameter ( $\beta=0,87$  and of the correlation report ( $R=0,95$ ) tend to 1, which would mean that *the structure of the comparative advantage distribution did not change very much*. The situation was different during the *period 2000-2011*; even though *the specialization processes remained the same on average and a convergence process compared to the EU-27 taking place*, the medium-high values of the regression parameter ( $\beta=0,61$ ) and of the correlation report ( $R=0,74$ ), show the fact that there were, however, modifications *in the structure of the comparative advantage distribution for the regional export*, and since the value of the  $\beta$  coefficient in the regression equation is lower than the value of the correlation report we can conclude that *in this region there was a slight decrease in export specialization, due to the changes in the structure of the comparative advantages distribution* [figure 1].

**Figure 1. Correlogram of the regional Dalum indexes for exports on sections in the CN**



Source: processing of the data from the NIS and EUROSTAT

In other words, *the economy of the North-West region recorded a slight increase of specialization in those economical sectors in which, at the beginning of the period, there was not a high degree of specialization for the production capacities, and on the other hand it de-specialized in the activities in which it was initially specialized.*

This evolution of the comparative advantages distribution is also explained by the transition probability matrix. The export specialization processes change in the period of time 2000-2011 with a *probability of 50%*, meaning an *increase in specialization* for the products in which there was a *mediu-low degree of specialization in 2000*. With the same probability of 50% *has decreased* the degree of specialization pertaining to products in which at the beginning of the period the North-West region registered a *medium- high specialization of the production capacities*. We should notice that in this region, during in first 5 years, there are no deep modifications in the structure of export distribution per products, since the highest values can be seen on the matrix diagonal [figure 2].

**Figure 2. Transition probability matrix for the export specialization processes in the period of time 2000-2005 and 2000-2011**

North – West region – transition probability matrix					
5 years: 2000 - 2005					
I Quintile	II Quintile	III Quintile	IV Quintile	V Quintile	
low	medium-low	medium	medium-high	high	
(4)	0,75	0,25	0,00	0,00	0,00
(4)	0,25	0,50	0,00	0,25	0,00
(3)	0,00	0,25	0,33	0,25	0,00
(4)	0,00	0,00	0,67	0,50	0,00
(4)	0,00	0,00	0,00	0,00	1,00

11 years: 2000 - 2011					
I Quintile	II Quintile	III Quintile	IV Quintile	V Quintile	
low	medium-low	medium	medium-high	high	
(4)	0,25	0,25	0,33	0,25	0,00
(4)	0,50	0,25	0,00	0,00	0,25
(3)	0,25	0,00	0,33	0,25	0,00
(4)	0,00	0,50	0,33	0,25	0,00
(4)	0,00	0,00	0,00	0,25	0,75

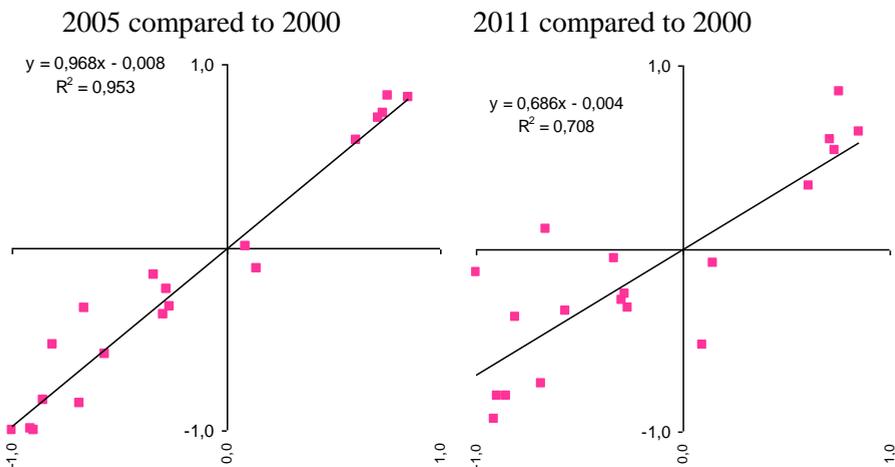
Source: processing of the data from the NIS and EUROSTAT

#### f. The Central Region

*In the Central region, the export specialization processes had no significant modifications in the period 2000-2005, since the parameters of the regression equations tend to 1 ( $\beta=0,97$  in 2005 and  $\beta=0,67$  in 2011). These high values of the regression equation coefficients and of the correlation reports ( $R=0,98$  in 2005 si  $R=0,84$  in 2011) show the fact that there were *only slight modifications in the structure of the comparative advantage distribution for exports*. As we can notice in figure 3, the parameter of the regression equation is lower than the correlation report; consequently, in this region, even though there is a *slight decrease in the specialization of the production capacities, in the structure of the comparative advantage distribution for exports there are no significant modifications* (the regression effect not compensates the mobility effect of the structure). In other*

words, *the slight decrease in the degree of specialization of the regional economy is due to the decrease in specialization in the economical sectors in which the region was highly specialized in 2000, decrease which could not be compensated by the increase of the degree of specialization in manufacturing those products for which the region was initially less specialized.* Consequently, in the structure of exports, on regional level, there is a convergence of the specialization process compared to the EU-27 [figure 3].

**Figure 3. Correlogram of the regional Dalum indexes for exports on sections in the CN**



Source: processing of the data from the NIS and EUROSTAT

The transition probability matrix for the specialization processes emphasizes the same evolution in the structure of the comparative advantages. The export specialization processes change in the period of time 2000-2011 *only with a probability of 25%*, meaning an increase in specialization for products for which in 2000 there was a *low degree of specialization* and with the same probability (if we analyze the period 2000-2005) or *with a probability higher than 50%* (if we refer to the period 2000-2011), meaning a decrease of specialization for those products in which the Central region had a medium-high degree of specialization initially. We should notice *the highest probability* for the decrease in specialization in the period of time 2000-2011 is *50%*, for those products which had a medium-high degree of specialization, therefore in this region there are no deep modifications in the structure of export distribution on types of products (high values on the matrix diagonal) [figure 4].

**Figure 4. Transition probability matrix for the export specialization processes in the period of time 2000-2005 and 2000-2011**

**Central region – transition probability matrix**

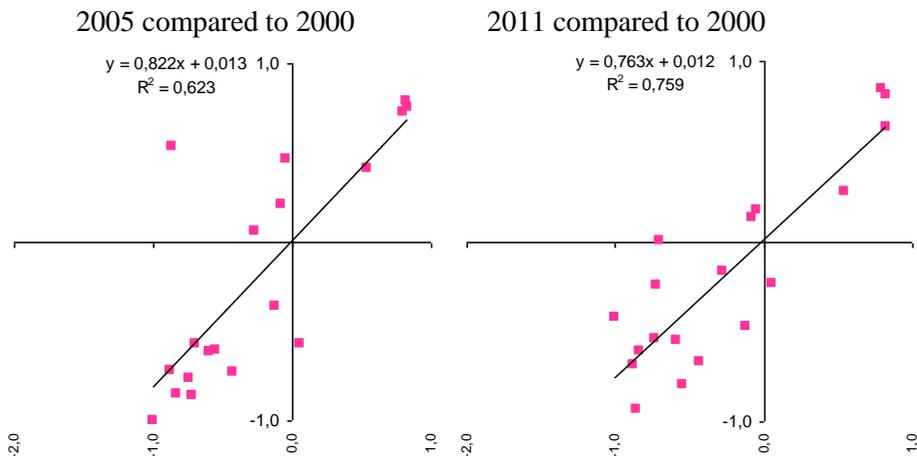
5 years: 2000 - 2005						11 years: 2000 - 2011					
I Quintile	II Quintile	III Quintile	IV Quintile	V Quintile		I Quintile	II Quintile	III Quintile	IV Quintile	V Quintile	
low	medium-low	medium	medium-high	high		low	medium-low	medium	medium-high	high	
(4)	0,75	0,25	0,00	0,00	0,00	(4)	0,75	0,00	0,33	0,00	0,00
(4)	0,25	0,50	0,33	0,00	0,00	(4)	0,25	0,50	0,00	0,25	0,00
(3)	0,00	0,25	0,33	0,25	0,00	(3)	0,00	0,00	0,67	0,25	0,00
(4)	0,00	0,00	0,33	0,75	0,00	(4)	0,00	0,50	0,00	0,50	0,00
(4)	0,00	0,00	0,00	0,00	1,00	(4)	0,00	0,00	0,00	0,00	1,00

Source: processing of the data from the NIS and EUROSTAT

**g. The North-East Region**

In this region, even though *the export specialization processes remained the same on average during the period of time 2000-2011* - the values of the regression parameters being between 0 and 1 ( $\beta=0,82$  in 2005 and  $\beta=0,76$  in 2011), the medium-high values of the regression parameters and of the correlation reports ( $R=0,79$  in 2005 and  $R=0,87$  in 2011) - show the fact that *there were slight changes in the structure of the distribution of comparative advantages for exports* [figure 5].

**Figure 5. Correlogram of the regional Dalum indexes for exports on sections in the CN**



Source: processing of the data from the NIS and EUROSTAT

The different evolution during the two periods is deduced from the comparative analysis between the parameter of the regression equation and the correlation report; while between 2000-2005 the coefficient is higher than the correlation report, which would mean that *in the region there was a slight increase in export specialization*, during the period of time 2000-2011  $\beta$  is lower than the correlation report and consequently during *these 11 years the regional economy had a slight decrease in the export specialization, decrease due to the structural changes in the distribution of comparative advantages*. In other words, *the increase in the specialization of production capacities for the activities in which the North-East region had a low degree of specialization was beaten by the decrease in specialization for the activities in which the region was initially specialized*.

The slight decrease of the specialization processes is also explained by the probability matrix. The exports specialization changes during the period of time 2000-2011 *with a probability of 67%*, meaning that the specialization decreased for the goods in which there was a medium degree of specialization in 2000, and *with a probability of 25%* (if we analyze the period 2000-2005) *or with a probability of 50%* (if we refer to the period 2000-2011), meaning that it decreased for the products in which the North-East region initially had a medium-high degree of specialization. We mention the fact that for the products with a high degree of specialization the *probability* of remaining on the same level is great, reaching the value of *100%* (these are the only high values which can be seen on the matrix diagonal), while the *probability* for the degree of specialization to decrease for the products placed in the medium interval *is of 67%* [figure 6].

**Figure 6. Transition probability matrix for the export specialization processes in the period of time 2000-2005 and 2000-2011**

**North-East Region – transition probability matrix**

5 years: 2000 - 2005

11 years: 2000 - 2011

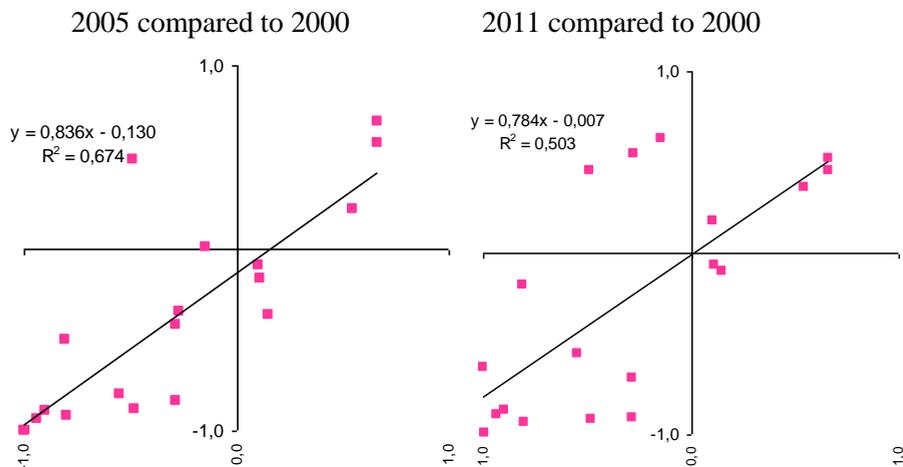
	I Quintile					II Quintile					III Quintile					IV Quintile					V Quintile					
	low	medium-low	medium	medium-high	high	low	medium-low	medium	medium-high	high	low	medium-low	medium	medium-high	high	low	medium-low	medium	medium-high	high	low	medium-low	medium	medium-high	high	
(4)	0,50	0,25	0,00	0,00	0,25	(4)	0,50	0,25	0,33	0,00	0,00	0,25	0,00	0,00	(4)	0,50	0,25	0,33	0,00	0,00	(4)	0,50	0,25	0,33	0,00	0,00
(4)	0,50	0,25	0,33	0,00	0,00	(4)	0,00	0,50	0,33	0,25	0,00	(4)	0,00	0,50	0,33	0,00	0,25	0,00	0,00	0,00	(4)	0,00	0,25	0,33	0,50	0,00
(3)	0,00	0,50	0,00	0,25	0,00	(3)	0,50	0,00	0,00	0,25	0,00	(3)	0,50	0,00	0,00	0,25	0,00	0,00	0,25	0,00	(4)	0,00	0,00	0,00	0,00	1,00
(4)	0,00	0,00	0,67	0,50	0,00	(4)	0,00	0,25	0,33	0,50	0,00	(4)	0,00	0,25	0,33	0,50	0,00	0,00	0,00	0,00	(4)	0,00	0,00	0,00	0,00	1,00
(4)	0,00	0,00	0,00	0,25	0,75	(4)	0,00	0,00	0,00	0,00	0,00	(4)	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	(4)	0,00	0,00	0,00	0,00	1,00

Source: processing of the data from the NIS and EUROSTAT

### h. The South-East Region

While in the period 2000-2005 in the South-East region *the export specialization processes did not record any significant modifications* (the regression parameter has a value higher than 0,84), during the 11 years subjected to the analysis *the specialization of production capacities remained the same on average* (the value of the regression coefficient is 0,78), but the average values of the regression parameter and of the correlation report ( $R=0,71$ ) emphasize the fact that *there were, however, modifications in the structure of the distribution of comparative advantages for regional exports*. Since, in the period 2000-2011, the coefficient of the regression equation is higher than the correlation report, which would mean that the mobility effect of the structure not compensates for the regression effect, in this region there is *an increase in the degree of specialization, and in the structure of the comparative advantage distribution there were structural modifications*, consequently, on regional level, there is a convergence of the specialization process compared to the EU-27. In other words, *in this region the increase in the degree of specialization in the economic sectors in which the region was not specialized in 2000 was higher than the decrease pertaining to the activities in which the region was initially strongly specialized* [figure 7].

**Figure 7. Correlogram of the regional Dalum indexes for exports on sections in the CN**



Source: processing of the data from the NIS and EUROSTAT

The transition probability matrix points out the fact that the export specialization processes change during the period 2000-2011, with a *probability of 75%*, meaning an increase in specialization for the products in which there was a low

degree of specialization in 2000, and the same probability can be seen in the decrease of the specialization degree for the goods in which the region initially had a high or medium-low degree of specialization [figure 8].

**Figure 8. Transition probability matrix for the export specialization processes in the period of time 2000-2005 and 2000-2011**

<b>South-East Region – transition probability matrix</b>					
5 years: 2000 - 2005					
I Quintile	II Quintile	III Quintile	IV Quintile	V Quintile	
low	medium-low	medium	medium-high	high	
(4)	0,75	0,25	0,00	0,00	0,00
(4)	0,25	0,25	0,33	0,00	0,25
(3)	0,00	0,50	0,33	0,00	0,00
(4)	0,00	0,00	0,00	1,00	0,00
(4)	0,00	0,00	0,33	0,00	0,75

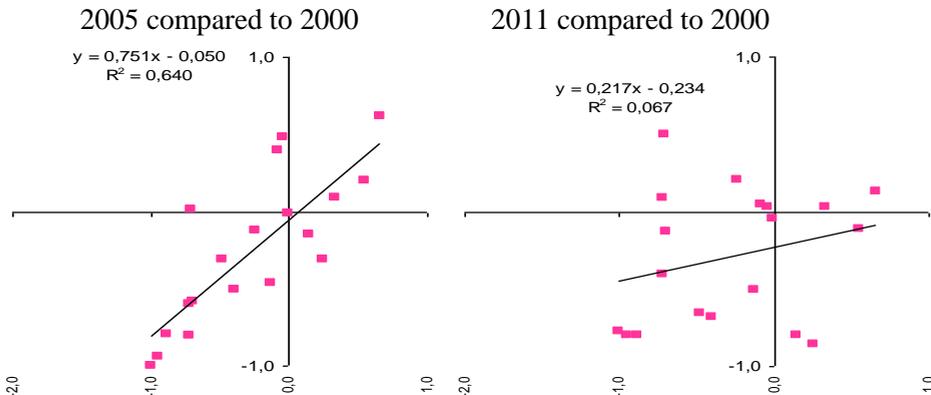
11 years: 2000 - 2011					
I Quintile	II Quintile	III Quintile	IV Quintile	V Quintile	
low	medium-low	medium	medium-high	high	
(4)	0,25	0,75	0,00	0,00	0,00
(4)	0,25	0,00	0,67	0,00	0,25
(3)	0,50	0,25	0,00	0,00	0,00
(4)	0,00	0,00	0,00	0,50	0,50
(4)	0,00	0,00	0,33	0,50	0,25

Source: processing of the data from the NIS and EUROSTAT

#### **i. The South Muntenia Region**

In South Muntenia region, *the export specialization processes* had significant modifications especially during the last 6 years, since during the first part of the period subjected to the analysis, *2000-2005*, the high values of the regression equation parameter (0,75) and of the correlation report (0,90) *show the fact that export specialization did not have significant modifications*, staying the same on average, while in the period 2000-2011, the value close to zero of the regression parameter ( $\beta=0,22$ ) and the low value of the correlation report ( $R=0,26$ ) point out *significant modifications in the structure of the distribution of comparative advantages pertaining to regional export* [figure 9].

**Figure 9. Correlogram of the regional Dalum indexes for exports on sections in the CN**



Source: processing of the data from the NIS and EUROSTAT

The coefficient of the regression equation is lower than the correlation report; consequently, we can state that in this region *the degree of export specialization decreases, because the structure of the comparative advantage distribution has some modifications*. In other words, during the 11 years subjected to the analysis, *the economy of the South Muntenia region had significant modifications from the point of view of production capacity specialization, the specialization processes being almost reversed, as the region specialized in manufacturing goods in the production of which it was not specialized in 2000, and it de-specialized in the economical activities in which it was initially specialized. These changes have led to a convergence process of export specialization compared to the EU-27.*

The reversal of the specialization processes in the South Muntenia region is also emphasized by the probability matrix. While in the period of time 2000-2005, a period of stability for the specialization processes, the highest values of the matrix can be found on its diagonal (*100% probability of maintaining the low degree of specialization for certain products*), between 2000-2011 the highest *probability of maintaining specialization is of 75%* and it is the one pertaining to products for which the region had a medium-high degree of specialization in 2000. The export specialization processes are changed in the period 2000-2011 with a *probability of 50%*, meaning an increase in specialization for the production of goods for which there was initially a low degree of specialization and with a *probability of 67%*, meaning that it decreases for the products in which there was a medium degree of specialization, while for the products for which the region had a high degree of specialization in 2000, *the probability for it to decrease is of 75%* [figure 10].

**Figure 10. Transition probability matrix for the export specialization processes in the period of time 2000-2005 and 2000-2011**

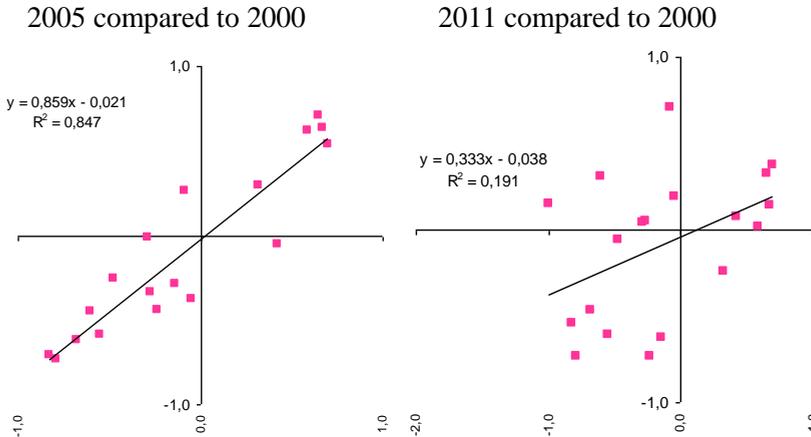
South Muntenia Region – transition probability matrix										
5 years: 2000 - 2005					11 years: 2000 - 2011					
I Quintile	II Quintile	III Quintile	IV Quintile	V Quintile	I Quintile	II Quintile	III Quintile	IV Quintile	V Quintile	
low	medium-low	medium	medium-high	high	low	medium-low	medium	medium-high	high	
(4)	1,00	0,00	0,00	0,00	0,00	0,50	0,25	0,33	0,00	0,00
(4)	0,00	0,50	0,33	0,25	0,00	0,00	0,25	0,33	0,00	0,50
(3)	0,00	0,50	0,00	0,25	0,00	0,00	0,50	0,00	0,00	0,25
(4)	0,00	0,00	0,33	0,25	0,50	0,25	0,00	0,00	0,75	0,00
(4)	0,00	0,00	0,33	0,25	0,50	0,25	0,00	0,33	0,25	0,25

Source: processing of the data from the NIS and EUROSTAT

#### j. The Bucharest-Ilfov Region

The evolution of the specialization processes in Bucharest-Ilfov region underlines the fact that the specialization of production capacities in manufacturing some products has a certain degree of continuity, representing a tradition of the regional economy in the period 2000-2005. While in this years *the degree of export specialization remained the same on average, without any significant modifications in the structure of the comparative advantages* (high values of the regression equation parameter – 0,86 - and of the correlation report – 0,92), in the period 2000-2011 *the degree of specialization increased*, since the small value of regression parameter ( $\beta=0,33$ ) is higher that the value close to zero of the correlation report ( $R=0,14$ ), and there are *modifications in the structure of the distribution of comparative advantages pertaining to regional exports*. The parameter of the regression equation is lower than the correlation report for the first 5 years, which means that the evolution of the degree of specialization at the beginning of the period has changed during the last years, so that in 2011 we can state that in this region *there is an increase in the export specialization and the structure of the comparative advantage distribution suffers only slight modifications*. In other words, *the region maintained or even increased its great advantages in the sectors in which it was already specialized and the disadvantages in the sectors in which it had a low degree of specialization* [figure 11].

**Figure 11. Correlogram of the regional Dalum indexes for exports on sections in the CN**



Source: processing of the data from the NIS and EUROSTAT

According to the probability matrix, the export specialization processes change in the period 2000-2011 with a *probability of 75%*, meaning an increase in specialization for products in which there was a low degree of specialization and with the probability of 50%, meaning a decrease of specialization with a high degree of specialization, while in the case of products with a medium-high specialization the *probability* of increasing and decreasing this specialization was of 25% [figure 12].

**Figure 12. Transition probability matrix for the export specialization processes in the period of time 2000-2005 and 2000-2011**

**Bucharest-Ilfov Region – transition probability matrix**

5 years: 2000 - 2005

11 years: 2000 - 2011

	I Quintile	II Quintile	III Quintile	IV Quintile	V Quintile
	low	medium-low	medium	medium-high	high
(4)	1,00	0,00	0,00	0,00	0,00
(4)	0,00	0,50	0,33	0,25	0,00
(3)	0,00	0,25	0,67	0,00	0,00
(4)	0,00	0,25	0,00	0,75	0,00
(4)	0,00	0,00	0,00	0,00	1,00

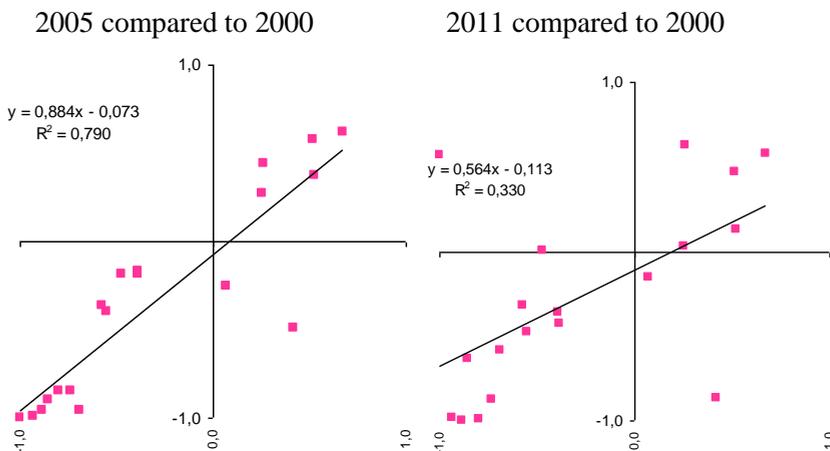
	I Quintile	II Quintile	III Quintile	IV Quintile	V Quintile
	low	medium-low	medium	medium-high	high
(4)	0,25	0,50	0,00	0,25	0,00
(4)	0,25	0,25	0,33	0,00	0,25
(3)	0,50	0,00	0,33	0,00	0,00
(4)	0,00	0,25	0,00	0,50	0,25
(4)	0,00	0,00	0,33	0,25	0,50

Source: processing of the data from the NIS and EUROSTAT

### k. South – West Oltenia Region

Even though in the period 2000-2011 *the exports degree of specialization remained the same on average*, since the regression parameters for the two periods were between 0 and 1 ( $\beta=0,88$  for 2005 and  $\beta=0,56$  for 2011), however, the evolution of the specialization processes during the first years is different from the last years analyzed. [figure 13].

**Figure 13. Correlogram of the regional Dalum indexes for exports on sections in the CN**



Source: processing of the data from the NIS and EUROSTAT

Thus, while in the period 2000-2005 the correlation report has a high value ( $R=0,89$ ), during the 11 years subjected to the analysis its value is lower ( $R=0,57$ ), which means that *in the structure of the comparative advantage distribution pertaining to regional exports there were significant modifications*. During the 11 years  $\beta$  is lower than  $R$ , which means that in this region there was *a slight decrease in export specialization and in the structure of the comparative advantage distribution there were significant modifications*. In other words, *in the regional economy the degree of specialization decreased for the production of goods for which the region was not initially specialized, decrease which was greater than the specialization occurring in the sectors in which the South-West Oltenia region was specialized in 2000*.

This evolution is also explained by the probability matrix. While in the period 2000-2005 the *probability* for the export specialization processes to change leading to a decrease in their intensity for the products with a medium and medium-high

degree of specialization *was of 33% and 50% respectively* (with high values on the matrix diagonal for the other categories of products, too), in the period 2000-2011 the highest *probability* of maintaining the degree of specialization is *of 50%* (value pertaining to the products with low, medium-high and high degree of specialization), and with the same probability for increasing the degree of specialization in manufacturing products for which the region had a low and medium-low degree of specialization in 2000. We must notice the *50% probability* pertaining to the decrease in specialization for the products with high degree of specialization [figure 14].

**Figure 14. Transition probability matrix for the export specialization processes in the period of time 2000-2005 and 2000-2011**

South – West Oltenia Region – transition probability matrix					
5 years: 2000 - 2005					
I Quintile	II Quintile	III Quintile	IV Quintile	V Quintile	
low	medium-low	medium	medium-high	high	
(4)	0,75	0,25	0,00	0,00	0,00
(4)	0,25	0,50	0,33	0,00	0,00
(3)	0,00	0,00	0,33	0,50	0,00
(4)	0,00	0,00	0,33	0,50	0,25
(4)	0,00	0,25	0,00	0,00	0,75

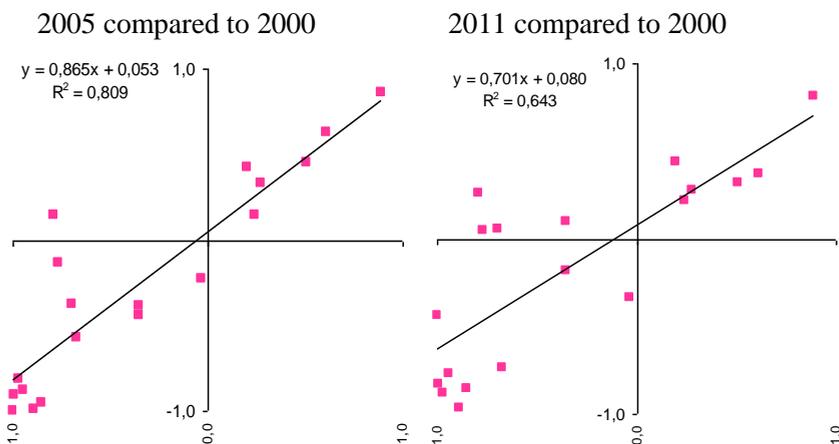
11 years: 2000 - 2011					
I Quintile	II Quintile	III Quintile	IV Quintile	V Quintile	
low	medium-low	medium	medium-high	high	
(4)	0,50	0,25	0,00	0,00	0,25
(4)	0,50	0,25	0,33	0,00	0,00
(3)	0,00	0,25	0,33	0,25	0,00
(4)	0,00	0,00	0,33	0,50	0,25
(4)	0,00	0,25	0,00	0,25	0,50

*Source:* processing of the data from the NIS and EUROSTAT

### I. West region

In the West region, *the export specialization processes remained the same on average in the period 2000-2011*, since the regression parameter is between 0 and 1 ( $\beta=0,87$  in 2005 and  $\beta=0,70$  in 2011). However, the higher values of the regression parameter and of the correlation reports during the first 5 years analyzed ( $R=0,90$  in 2005 and  $R=0,80$  in 2011), underline the fact that the modifications in *the structure of the distribution of comparative advantage pertaining to the regional export were specific to the period after 2005*. The coefficients of the regression equation were lower than the correlation reports; consequently, *in this region there was a slight decrease in export specialization during the whole period (the structure mobility effect compensates for the regression effect)*. In other words, *in the West region the economy slightly increased its degree of specialization in manufacturing products for which it was less specialized in 2000, but at the same time it de-specialized in the economic activities in which it was initially specialized* [figure 15].

**Figure 15. Correlogram of the regional Dalum indexes for exports on sections in the CN**



*Source:* processing of the data from the NIS and EUROSTAT

In the transition probability matrix we can notice that during the first 5 years the stability of the specialization processes is higher, the *probability* for the degree of specialization to remain the same (medium or high respectively) for certain categories of products is of *67% and 75%* respectively, while in the period 2000-2011 the export specialization processes change with a *probability of 33%*, meaning an increase or decrease in their intensity for the products with a medium specialization degree and with a *probability and 50%* respectively meaning a decrease for the products with medium-high degree of specialization [figure 16].

**Figure 16. Transition probability matrix for the export specialization processes in the period of time 2000-2005 and 2000-2011**

West region – transition probability matrix											
5 years: 2000 - 2005					11 years: 2000 - 2011						
I Quintile	II Quintile	III Quintile	IV Quintile	V Quintile	I Quintile	II Quintile	III Quintile	IV Quintile	V Quintile		
low	medium-low	medium	medium-high	high	low	medium-low	medium	medium-high	high		
(4)	0,50	0,50	0,00	0,00	0,00	0,50	0,50	0,00	0,00	0,00	
(4)	0,50	0,00	0,00	0,50	0,00	(4)	0,50	0,00	0,33	0,25	0,00
(3)	0,00	0,25	0,67	0,00	0,00	(3)	0,00	0,25	0,33	0,25	0,00
(4)	0,00	0,25	0,33	0,25	0,25	(4)	0,00	0,25	0,33	0,25	0,25
(4)	0,00	0,00	0,00	0,25	0,75	(4)	0,00	0,00	0,00	0,25	0,75

*Source:* processing of the data from the NIS and EUROSTAT

## CONCLUSIONS

In most regions, in 2011 compared to 2000, *there was only a slight decrease of regional exports specialization compared to the values in EU-27, while in the structure of the distribution of comparative advantages there were, however, modifications.* This suggests that *the regional economies de-specialized in manufacturing products for which they were initially specialized in 2000, and specialized slightly in the economical sectors in which they were less specialized* (except for the South-East region where the degree of specialization increased due to the higher specialization in those sectors in which they were less specialized, and South Muntenia region where the specialization processes were almost reversed). We must notice that, in all regions, even though *the specialization processes remained the same on average, there was, however, a convergence process of the distribution of the export comparative advantages compared to the EU-27 in the last 11 years.*

In most regions, *the specialization processes pertaining to exports were constant until 2005 compared to the reference year 2000, which means that the degree of export specialization remained low or high* (the probability of remaining with a low or high degree of specialization for certain sections is of 75% in most of the regions) *and they suffered modifications in the case of the products with medium degree of specialization. The situation changes during the last 11 years in the Romanian regions compared to the EU-27, since the probability of increasing or decreasing the specialization is higher than 50% in most regions; consequently, the regional economies gained comparative advantages for the products in which they were less specialized and lost some of the advantages compared to the EU-27 for the products in which they were specialized.*

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# EASTERN „LOW EXPATS”: MIXING „ROAMING” OF HUMAN RESOURCE MANAGEMENT WITH HOST COUNTRY LABOUR STANDARDS WITHIN EUROPEAN UNION

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**Abstract:** *Within the European Union (EU), employers may temporarily post their own employees in another state, for providing a service or performing a job without being required to follow specific administrative procedures. However, employers should ensure for the posted workers (expats) the minimum labour standards of the host country (HCLS), including minimum wage, working and resting time and health and safety measures at work. Analyzing the empirical dimension of the phenomenon of posting Romanian workers in the EU in the period 2007 - 2011, this paper discusses how a EU new Member State located company providing services in another EU state, may combine its own human resource management system applicable to the relocated unit ("roaming" of human resource management - RHRM) with pattern of minimal HCLS. The difference between the level of minimum wage within the EU member states (Eastern low/Western high) as well as other features of labour relations increase the difficulty of mixing RHRM with HCLS.*

**Keywords:** posting worker, low-expat, roaming HRM.

## INTRODUCTION

Human resource management (HRM) in its original form arising from the United States of America (US) aims to improve organizational performance, based on the American corporate culture that assigns a superior position for the employer. The European vision contrasts with that across the ocean, attributing HRM regional, national or Community dimension. The national state and the institutions of the European Union (EU) are positioned before the organizational culture and impose constraints in the employer - employee relationship (Communal and Brewster, 2004, p. 175).

Geographical mobility of workers within the same organization, given the specific activity or expansion entrepreneurship and openness to other local markets is a phenomenon involving specific features of HRM. Working on projects, covering a geographical area, a subsidiary relationship, response to a

business opportunity in another area of operations are models of organizational development which are reflected in the labour relation.

The European integration perspective opened horizon for the market activity of Romanian organizations to the other EU Member States in the context of the free movement of services. Employers may post their own employees temporarily in another state for providing a service or performing a job without being required to follow specific administrative procedures. Moreover, Community rules on social security for workers allow their temporary postings, without register to the insurance system and paying social security contribution in the host state while preserving benefit of the rights granted to workers during relocation.

Within this *friendly environment* of the European development of economic operations, the pursuit of an activity that involves the temporary movement of employees is still subject to restrictions. Transnational organization should ensure the minimum labour standards of the host country (HCLS) for the posted workers including minimum wage, working time, resting time and health and safety measures at work.

Although theoretically HCLS is only a part of the national regulations regarding labour relations and occupational health and safety, in reality there are obligations involving the highest costs for the employer and the provision of services can become unprofitable in this conditions.

## 1. POSTING OF WORKERS

In March 1891 Kansas State Legislature adopted *The eight-hour law*, including a prevailing wage section providing that not less than the current rate of per diem wages in the locality where the work is performed shall be paid to labourers, workmen, mechanics and other persons so employed by or on behalf of the state of Kansas. From that moment on, various American states have adopted *prevailing wage laws* and in 1931 *Davis-Bacon Act* established a minimum wage level that was extended to the federal public contracts as well (Philips, 1998).

Some of the most knowledgeable authors claim that the idea which has led to the creation of the provision of posting workers in Europe has its roots in the *Davis-Bacon Act*. Another possible origin is *Convention No. 94* of the International Labour Organization (ILO), *Labour Clauses in Public Contracts* 1949 (Cremers et al., 2007).

The beginnings of the *European regulation* lies in the late 80's and is due to the *European building union's* demands for a social clause in the procurement rules for public projects, guaranteeing compliance with working conditions and collective agreements of the country where the work is carried out (Cremers 2006). In 1996 the Council and the European Parliament adopted the Directive

96/71/CE concerning the posting of workers in the framework of the provision of services (PWD), to be implemented by the Member States at the end of 1999.

PWD's goal was to eliminate the obstacles hindering the free movement of persons and services, under provisions of fair competition, among the member states. The phrase "*social dumping*" was *ubiquitous slogan* that accompanied the PWD from the idea stage, during negotiations and lawmaking being currently successfully used to substantiate protectionist measures of *high-wage Member States* against *low-wage Member States* in mobility employment context. In terms of posted workers mobility on the mechanism from "*low-wage at home*" to "*high-wage-West*" advantages and disadvantages were identified for the EU Member States and other actors. These *win-loss* facets are sometimes placed in direct relationship to strengthen the construction of arguments in a certain direction.

New Member States benefit because of the competitive advantage of low labour cost, but workers who earn less are disadvantaged because the period of secondment must live in the host State. The same New Member States are losing highly skilled workers who accept lower jobs in the Western States (Bercusson, 2006). In a contrary interpretation (for high labour cost states), PWD stimulate "*acceptable*" mobility for highly skilled workers and provides protection for the "*unwanted*" mobility of unskilled workers with basic qualification (Houwerzijl, 2005).

The problem of low-wage-expatriates (low-expats) invasion from the states of *New Europe* may have a different approach, which seems closer to the idea of freedom, economic development and convergence. Labour mobility, computed as the *opportunity cost* between getting a higher wage and geographical temporarily relocation costs, is identified as an important mechanism to equalize disparities between different levels of development of the Member States. *Natural slowness* of the process of capital accumulation in countries with low labour cost represents the *optimum speed* to close the gaps in the way to convergence and the label of "*social dumping*" followed by supranational institutional arrangements, occurred in an unnecessarily and dubious way in this transitional phenomenon (Sinn, 2001, p.34-35).

On the basis of the PWD posted worker (expatriate) who is temporarily operating on the territory of another Member State in the provision of services carried by his employer. Posted workers may be relocated to achieve that work in a mobile team, may be temporarily integrated into the organizational structure of the parent company or a subsidiary or be a temporary worker who can be posted to a user companies, in which case his employer is a temporary work agency. The defining element for all three cases is given by the temporary relocation in another state than that in which the employer is established and maintaining in force the employment contract for entire assignment duration.

A package of labour standards of the host country (HCLS) forming a "*hard core*" of the national regulations is applicable to posted workers includes:

minimum rates of payment including overtime rates, maximum work periods and minimum rest periods, minimum paid annual holidays, conditions of hiring-out of workers, health, safety and hygiene at work, protective measures for pregnant women, children and young people, equality of treatment between men and women and other provisions on non-discrimination.

From adoption and so far, using the posting of workers on the basis of the PWD, a series of models followed, ranged from normal and decent mechanism established by long-term partnership to completely illegal practices associated with the term "*mailbox*" used only for recruitment (Cremers, 2011).

## **2. LABOUR MOBILITY FROM *LOW-EST* TO *HIGH-WEST***

A pragmatic description of Europe based on a series of statistical indicators shows the environment in which a service provider is invited to develop their cross-borders business operations: national economies characterized by a *Global Competitiveness Index* ranged from 3.86 and rank 96 for Greece to 5.55 and rank 3 for Finland [1], a market in which hourly labour costs ranged from 3.7 euro for Bulgaria to 39.0 euro for Sweden [2] and a mass of workers to the minimum monthly wage ranged from 158.05 euro for Bulgaria to 1.874,19 euro for Luxembourg [3].

In this context, the rule of respect for the host country labour standards (HCLS) raises a serious barrier for the service providers in states characterized by low labour costs and competitiveness as low. HCLS applicable to posted workers includes, besides the minimum wage, other elements define as mandatory for the employment relationship, but the direct effect on costs and disparities in the EU makes from the minimum wage eliminatory requirements for the employer.

Romania is the penultimate European Member State in regards of the minimum wage, and according to *Eurostat* methodology and the backwardness of Romanian government for the first time since the integration in the first half of 2013 even occupies the last place [3]. To be as close to reality, we consider the minimum wage set at this writing, which in the case of Romania is 168.49 euro [4]. This unwanted, but special reality portrays "*low expat*" and provides an opportunity of quantitative analysis of the phenomenon of posting of workers in the transnational provision of services, to test the effects of the institutional framework established by the PWD.

A large study of transnational posting of workers, suitable for all the EU countries in 2007-2009, revealed a number of interesting conclusions. From the sending country perspective, unemployment is the driver which explains more clearly the outflow of postings. From the side of a receiving country, labour cost and trade union membership are the main drivers for postings (ISMERI EUROPA, 2012).

The coordination mechanism of the national social security systems is one that offers the possibility of quantifying the phenomenon of posting workers in the transnational provision of services. It is based on data taken from forms A1 (formerly E101) that service providers require from the national authorities managing the social security system to prove in another state that people carrying out their work across borders are insured. Legal and administrative framework of social insurance is more comprehensive, including in addition to workers posted in the basis PWD, individuals authorized to carry out independent economic activities and other staff who, for various reasons, will work temporarily in another EU country. In addition to this fundamental flaw, statistics recorded cases of post (assuming they are all PWD category), without providing data on the number of the posted workers and the duration of relaying. Furthermore, not all the people who actually carry on business abroad have applied form A1, or there are those who did not complete their intention.

Despite these imperfections and limitations, form A1 records can provide a more accurate picture as to the posting of workers in the basis of PWD. In October 2012 the Commission completed the information on which the *ISMERI EUROPA* study was conducted [5] also providing statistical data for 2010-2011 [6], which allows an analysis of this phenomenon for a more generous time frame (2007-2011). Further it will be presented some elements revealed by focusing on the situation in Romania as a country of origin of posting workers in the context of mobility services and labour.

In 2007, the postings from Romania represented 0.85% of all posts made at the EU level. With an average annual growth rate of 64.5%, 4 times bigger than that of the partner accession Bulgaria and 3 times higher than countries that became members in 2004 (A-10) in 5 years, Romania provided in 2011 4.9% of all issued certificates (Table 1).

**Table 1. E101-A1 certificates by sending country, 2007 - 2011**

	2007	2008	2009	2010	2011
From Romania	9.030	13.096	26.116	29.730	59.363
From Bulgaria	4.743	3.817	4.366	5.734	7.429
From A-10 (except Poland)	100.944	128.591	112.058	132.647	186.841
Total EU	1.063.382	1.023.681	1.010.533	1.058.314	1.208.805
Yearly increase Romania	–	45.0%	99.4%	13.8%	99.7%
Yearly increase Bulgaria	–	-19.5%	14.4%	31.3%	29.6%
Yearly increase A-10 (except Poland)	–	27.4%	-12.9%	18.4%	40.9%
Yearly increase total EU	–	-3.7%	-1.3%	4.7%	14.2%

*Source of data:* European Commission [5],[6]. (A-10 = 2004 New Member States: Czech Republic, Cyprus, Estonia, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia)

Poland was separated from the group A-10 due to the very impressive number of postings (Table 2), which makes imperceptible the dynamics of other states. Relative to the size of the labour market of Romania [7], those nearly 5 percent exceed the EU average and are slightly below the other states in the Eastern region (Estonia, Hungary, Poland, Slovenia and Slovakia).

**Table 2. E101-A1 certificates by sending country (A-10), 2007 - 2011**

	2007	2008	2009	2010	2011
Cyprus	143	76	29	81	38
Czech Republic	15.803	16.383	17.150	15.829	16.102
Estonia	9.454	10.140	8.384	13.580	15.322
Hungary	36.178	43.204	36.403	40.640	57.848
Latvia	2.277	1.289	1.971	3.424	4.287
Lithuania	2.743	4.482	5.486	6.462	9.515
Malta	101	162	112	442	318
Poland	238.946	228.722	204.374	221.126	227.930
Slovakia	21.213	35.693	24.688	28.245	40.926
Slovenia	13.032	17.162	17.835	23.944	42.485
Total A-10	339.890	357.313	316.432	353.773	414.771
From A-10 (except Poland)	100.944	128.591	112.058	132.647	186.841

*Source of data:* European Commission [5],[6]. (A-10 = 2004 New Member States: Czech Republic, Cyprus, Estonia, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia)

Consistent increase in the number of postings over the 5 years makes a special case from Romania, both in comparison to other Eastern European countries, but mostly through differentiation from Bulgaria, who "received" the same transitional treatment related to access on the labour market in some Member States. Previous research has found some correlation between the transitional restrictions imposed by some Member States to Romania and the number of postings in those states, being a case of differentiation with respect to their effect on other states new integrated (IDEA and ECORYS, 2011).

Distribution of postings from Romania between the Member States of destination (Table 3) confirms the driver concerning the labour cost from the sending country perspective (ISMERI EUROPA, 2012). Four of the top five countries preferred by the service providers from Romania (Germany, France, Belgium and Netherlands) belong to the *high-cost labour category*, with a minimum wage level higher than 900 euro (Țacu, 2012). From the total of 12 countries selected on the relevant percentage of postings, 8 belong to the *high-cost labour category*, amounting to 80.5% of postings from 2011 with Romania as a country of origin. Hungary, the EU state bordering Romania which is part of the *low-cost labour category*, has recorded less than one percentage of the postings of 2011.

**Table 3. Main destination countries for Romanian postings, 2008-2011**  
**Percentage of postings from total, by destination country**

<b>Destination country</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Germany	46.0%	45.6%	53.4%	52.6%
Italy	19.1%	20.7%	10.2%	11.1%
France	9.2%	11.1%	14.0%	12.6%
Belgium	6.0%	5.5%	5.4%	5.7%
Netherlands	3.3%	3.7%	5.0%	4.6%
Spain	6.7%	3.0%	1.3%	1.9%
Hungary	1.9%	2.2%	1.9%	0.9%
Greece	1.0%	1.2%	1.9%	2.4%
Austria	1.0%	1.1%	1.3%	1.4%
Norway (EEA)	2.0%	1.4%	0.6%	0.5%
Sweden	0.5%	0.5%	0.2%	2.6%
United Kingdom	0.3%	0.2%	0.4%	0.5%

*Source of data:* European Commission [5],[6]. (EEA = European Economic Area)

Observing the annual trend of postings (Table 3), just in the case of Greece, Austria and the United Kingdom, there is a continuous assessment during the reference period which, however, reported to other states, occupies a small percentage of postings even cumulative (4.3% 2011). Relating back to the labour market size from the destination countries [7], Germany and Belgium are still leading after this adjustment, while Italy and France are dropping in preferences.

For Italy, even if the postings from Romania preference are influenced by the size of the country labour market, we can see that on the basis of an annual average of 7.8%, it is the Member State where the Romanian service providers have the highest percentage (Table 4).

**Table 4. Main destination countries for Romanian postings, 2008-2011**  
**Percentage of Romanian postings from total postings on destination country**

Destination country	2008	2009	2010	2011
Germany	2.6%	5.4%	6.5%	10.2%
Italy	4.9%	10.8%	5.1%	10.4%
France	0.8%	1.9%	2.6%	4.7%
Belgium	0.7%	1.5%	1.8%	2.7%
Netherlands	0.5%	1.2%	1.7%	2.6%
Spain	1.6%	1.2%	0.6%	2.4%
Hungary	2.7%	7.6%	6.8%	5.6%
Greece	1.4%	2.9%	5.5%	18.4%
Austria	0.3%	0.6%	0.7%	1.1%
Norway (EEA)	1.1%	1.6%	1.0%	1.0%
Sweden	0.3%	0.7%	0.3%	6.3%
United Kingdom	0.1%	0.1%	0.4%	0.8%

*Source of data:* European Commission [5],[6]. (EEA = European Economic Area)

The share of "*transnational service provider's national market*" confirms the position by undisputed leader Germany (Table 4), which is confirmed by presence and continued growth trend of preference (Table 3). Besides the wage gap, another explanation for this situation is the average by *neo-corporatist* German state that has adopted a liberal attitude, more permissive for service providers from the integrated new Member States (Menz, 2003). The special case

of Germany, not yet completed internal integration post-unification of their citizens from the Eastern lands, is re-emphasized by the dispute over the minimum wage. Negative economic effects that involve the imposition of a minimum wage are discussed, against the posted workers who will lose their jobs, consumers who will pay more for the same services, unskilled German citizens and German companies looking for competitiveness (Möschel, 2005).

Including Great Britain between the 12 countries analyzed was based on the political and media interest that arouses mobility in Romania and Bulgaria after the liberalization of access to the labour market from 1<sup>st</sup> January 2014. Research carried out in relation to the complex phenomenon of migration Romanian citizens, which includes employment offered by British employers, in addition to posting forms revealed by *AI forms*, shows that Britain is not a preferred destination. Estimates indicate a rate of 4% of migrant workers in the UK having Romanian citizenship (Rolfe et al., 2013). The result under one percentage of presence of the Romanian providers (Table 4), and a level on base of the list by their preference (Table 3) place the United Kingdom at a greater distance and more isolated than on the geography maps.

From the methodological point of view, a separate approach to each state to enable a customized analysis transforming quantitative data into qualitative elements. A "*country by country*" analysis must start with an overview of the phenomenon of transnational posting of workers in the EU, but introducing new variables (influence networks, linguistic characteristics, traditions mobility, migration, types of geographic proximity, political capital mobility, the model of capitalism) along with the extension of time would certainly improve the results obtained previously (ISMERI EUROPA, 2012).

Conclusions of the analysis made on Romania as a country of origin for low-expats posted in the provision of transnational services, depict an operational model in which the employer must adopt it for personal conduct operations in another EU Member State. Lines describing this model are basically the adaptation of minimum labour standards of the host country (HCLS) by a method of "roaming" Human Resource Management (RHRM) and will be presented in the conclusion of this paper.

### **3. FACING HOST COUNTRY LABOUR STANDARDS (HCLS) REALITY THROUGH "ROAMING" OF HUMAN RESOURCE MANAGEMENT (RHRM)**

To explain things we do not understand we often use comparison. The trend towards efficiency in human reasoning often chooses a more economical way, using things and phenomena already known to transpose the qualities and characteristics of unknown things and phenomena that appear similar.

The strongly institutionalized mechanism concerning the posting of workers in the transnational provision of services within the EU is at least complicated for a person unfamiliar with the field of labour relations and European regulatory specificity. To transform this complicated machinery involving labour relations, commercial contracts, administrative duties and interstate relations, we chose to simplify the path by using the concept of "roaming", borrowed from the field of mobile communications technology.

To define *roaming* I chose to resort to normative framework support offered by Europe for precision and rigor. "*Community-wide roaming*" means the use of a mobile telephone or other device by a roaming customer to make or receive intra-Community calls, to send or receive SMS messages, or to use packet switched data communications, while in a Member State other than that in which that customer's home network is located, by means of arrangements between the operator of the home network and the operator of the visited network [8]. First international roaming call is dated in 1991 and is due to cooperation between Vodafone UK and Telecom Finland which resulted in an agreement signed a year later [9].

The first European employer who used transnational posting of workers in "roaming" is less known. Theoretically, this event is related to the entry into force of the PWD in 1996 but, in fact, forms of labour across borders probably dated earlier, especially given by the agreement on the free movement that Germany, France and the *Netherlands* signed in Schengen in 1985.

Translated in terms of human resource management (HRM), "*roaming*" means providing temporary mobility personal by switching from using *home network* (the system of labour relations and personnel management) and using the *partner network* at relocation (minimum level of the host country labour standards - HCLS, administrative mechanisms for recording and control) without the need to change equipment, respectively labour contract. The temporary use of another *host network* certainly involves additional costs generated primarily by simply modifying the *network conditions at home* and for some employers especially by substantive difference between the salaries from the state of origin to that of the HCLS. Reality reveals that a Romanian employer pays in January 2013 a salary of 480.31 euro (average gross earning) [10]. To relocate a worker in Germany, it must upgrade his salary at least to 1.176 euro [11], for France to 1.430,22 euro, for Netherlands to 1.469,4 euro and for Belgium to 1.501,82 euro (monthly minimum wages) [3]. This represents an increase between 245% and 313%. Discrepancies would be even higher if, instead, we choose the average worker paid to a minimum, which is three times lower.

Costs involved also the situation of national mobility work teams, not just the international one, being assumed to be undertaken by the provider. Even if adding additional items that can be given greater distance, this is not related to the transnational character.

*Low-cost-labour* Member States service provider will need to add to alignment in labour costs to HCLS, the needs to adapt HRM to the transnational situation. RHRM involves adapting all international activities of personnel management: human resource strategy, reward system, staffing, talent management, employee and industrial relations, equal opportunities, risk management and workers protection (Mathis and Jackson, 2011, p.6).

The question arises about how the Romanian employer whose postings were counted in the previous section meets these costs imposed by "*roaming*"? Responses should be sought through research employers corresponding *robot portrait* drawn by the data presented above: mainly he likes high labour cost countries and the distance is not a problem.

Several hypotheses for future research, explaining the *paradox of the Romanian employer* could be: a higher price of services allows it to pay higher wages; flexibility given by the lack of the monitoring and control from the authorities; the lack of convergence and different interests of the home country-host country authorities; ingenuity to find ways to reduce costs sometimes in violation of other legal norms; neglecting other conditions imposed by the HCLS order to ensure the minimum wage; abandoning any HRM activities to reduce costs.

## CONCLUSIONS

The service provider whose work involves temporary mobility of workers in an international environment passes over the costs of mobility and internationalization. The EU environment does not provide the institutional framework established by the PWD an advantage to free manifestation of his activity. The price of adaptation to the host country labour standards (HCLS) adds an additional cost. This raises an additional barrier to mobility of services with temporarily posted workers in the free market of the EU. According to these conditions managing labour force is transformed into a "*roaming*" of Human Resource Management (RHRM) involving high additional costs.

The attractiveness of a gain in competitiveness throws the employer in a countdown race to provide for *low-wage-expat* requested minimum HCLS. The temptation to fraud, to neglect the working conditions of workers and to abandon any HRM activities to reduce costs induces behaviour that produces long-term consequences.

The Member States should decide whether to *unify networks* removing additional costs caused by the *roaming* following the shortest path towards convergence or abandon the idea of a single market for services and eliminate from this market the new entrants into the European family.

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# PARTICULARITIES OF THE LEGAL FRAMEWORK FOR THE EUROPEAN CIVIL SERVICE

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**Abstract:** *The institutions of EU could not function without a precise personnel structure. The features and the specific roles of these institutions demanded a body of professionals, with strong educational background and particular expertise. As a result, European Civil Service is a concept that recently entered into the custom vocabulary for each of us. A new area for administrative law has been launched and developed together with the progress of the member states (MS) cooperation. According to the legislation in force and the cases already solved, there are certain particularities that rule the European civil service. The present paper aims to identify the special legal rules governing the field, to analyze their purpose and their practical effect and to conclude on possible improvements.*

**Keywords:** public servant, civil service, EU staff, principles of law, specific regulation.

## INTRODUCTION

European Union institutions meet diverse training staff, whose work is conducted in accordance with the provisions contained in special legislation adopted. These regulations outline the European civil service law, as a new branch that has gained particular interest due to the autonomy granted to these legal rules and due to the importance of the regulatory domain for the entire activity of the union.

The concept of European civil service entered the language of each of us, is used in two ways, depending on the specific context different.

First, in the broadest sense of the term, the European civil service covers both persons vested with public authority working for a European institution or agency and also the officials active in government structures for each of the Member States of the European Union.

In turn, people working for the EU institutions and bodies are either EU officials (in the narrow sense of the term) or contractual staff, referring to the persons employed under a labor contract and who are not invested with public authority.

The three communities initially established (European Economic Community, the Coal and Steel Community and the EURATOM Community); each had its own body officials with special legal regulations. Pending the entry into force of the Merger Treaty, there were three categories of rules of law for the European civil service activity, separate regulations especially in terms of the hierarchy of degrees, levels of payment, pension scheme etc.

Article 24 of the Merger Treaty for the executives of communities (1967) required the establishment of a single and joint staff regulation for the Community institutions staff. Unification was achieved by Regulation EEC, ECSC and C.E.E.A. no. 259 from 29 February 1968, several times amended. The most important change was made by EC and EURATOM no. 723 of 22 March 2004. This Regulation, as amended and together with other relevant European institutions' internal rules, is known with the subtitle "Regulations and Rules applicable to officials and other civil servants of the European Communities/Union." (Constanța Călinoiu, Verginia Vedinaș, 1999, p. 12).

The narrow sense of the European official or civil service definition is contained in art. 1 of the Statute, according to which an official of the communities for the purposes of this regulation is any person who has been appointed under the terms of the statute on a permanent position in one of the institutions of the Union, through the written power of appointment of the institution which has the role of the vested authority.

## 1. LITERATURE REVIEW

Text as both paperworks and volume written on domestic public administration and comparative administrative law reveals, there are strong traditions of public service in every western country of the EU. It is estimated that the first country to adopt a general civil status was Spain, by the Law of 1852, followed by Luxembourg by a law from 1872 and Denmark in 1899. In Italy, the first statute of civil servants was adopted on November 22, 1908 and in the Republic of Ireland first civil law is dating from 1922. Netherlands and Belgium have adopted the first civil law in 1929 and General Rules of the Regulations of the United Kingdom of Great Britain and Northern Ireland occurs in 1931.

It seems that Germany has traditions regarding public office since the Middle Ages, as Professor Jacques Ziller considers that the first law which codified general rules for the civil service was adopted by the National Socialist regime in 1937, although there was a Bavarian Code of the public officials since the early nineteenth century, i.e. from July 1, 1806. (Antonie Iorgovan, 2001, p. 539)

German paradox in the legal Framework is found in France too, where civil traditions are much earlier to the Revolution of 1789 and the parliamentary rooms

discussed law project for ruling this topic on several occasions (1879, 1885, 1909 and so on). The first civil service status was adopted by the Vichy regime (October 1946.)

Greece adopted the first state civil servant statute in 1951, inspired as Professor Ziller explains, by the status of French, German and English law for the activity in civil service.

Regarding the civil service, the Romanian doctrine was very clear since 1904 when the first edition of the "Treaty of Administrative Law" by Professor Paul Negulescu was published. After 20 years from the publication of this fundamental work for the domestic legal science, there was adopted the first civil service status, on June 19, 1923, further completed with the Implementing Regulations from 23 November 1923. In 1940, the Code of civil service was adopted and in 1946 a new status of civil service entered into force.

In the context of communitary law, the regulatory framework for civil service was influenced by the adoption by the European Commission White Paper on administrative reform in March 2000. This document highlighted the principles of public administration in Europe, focusing on quality of service, civil servant independence, its liability for all acts committed, efficiency and transparency of public services provided to citizens. Creating a supranational Europe is related to some, perhaps especially those who work for it, the need for a permanent European public service and above all, independent. (David Spence, 2008, p. 173)

For the implementation of these principles The Code of Good Administrative Behavior was adopted on September 13, 2000, designed primarily as a tool for the civil servants in the European institutions working directly with the public. Moreover, the code aims to inform citizens on their right to receive quality service, the conditions in which they should expect to be treated when addressing European institutions.

Among the provisions of the code, most widely commented and analyzed in the literature, we note the citizen's right to good administration, most general principle which has multivalent implication on the whole public administration. In synthesis, civil servants should serve the public interest, to respect the Constitution and laws, demonstrate personal integrity, promote the ethics values of the particular organization and make every effort to get excellent standards in personal careers. (Robert B. Denhardt, Janet V. Denhardt, 2009, p. 158)

## **2. THE CONCEPT OF CIVIL SERVICE AT EUROPEAN LEVEL**

Text Activity in public organization is an activity of a particular group of people who meet certain criteria of rationality and efficiency in order to meet public interests. Processes to achieve these tasks are complex and implement action efforts of their organization.( Ana Maria Bercu, 2013, p. 21)

There are two categories of positions in the European Union civil service:

- First, there are officials working at the Union institutions to be designated with the title of European officials,
- And then there is the body of the government officials working in each Member State public administration structure.

We note that in this area the general principle of subsidiarity applies. Each Member State is governing the body of officials working in the public administration in accordance with the requirements of the domestic legal system. With regard to European civil service, the EU institutions are entitled to regulate their status, completing the general provision of the statute.

Regarding civil service regulation in the European Union, there is a dispute between concept based on the idea of legal status of civil servant (as Romanian legislation is adopted) and the concept based on the contractual status. Between the two possible regulations, the major difference is the assignment of the officials by the law in force in the field of public law, model adopted in most countries, or in the sphere of private law institutions, which strongly affects the ratio of authority that stands an official activity at his/her job.

In most countries (Belgium, Greece, Spain, France, Ireland, Netherlands, and Portugal) status applies to the undertakings of all permanent officials employed by the government, central state authorities, local authorities and independent establishments. This was the situation also in Italy, by the Decree-Law of February 1993 of the Government Amato.

Rule applying to all state agents is nuanced in terms of ruling the activity for the temporary agents, who are not to be confused with those who have part-time contracts. Germany and Luxembourg belong to the second group, in which cases the tradition calls for a distinction between civil service subjects to unilateral public law regime (*Beaute*), on one hand, and employees (*Angestellte*) and workers (*Arbeiter*), subjects to contractual arrangements, on the other. The distinction is based on the inner differences among position, in this manner German law establishing a hierarchy of public administration staff. The German doctrine estimates that only officials in the context of the permanent positions are able to exercise public authority powers or functions related to the defense of the general interest, while the two other staff may only be appointed for office, administrative or technical functions.

In the UK, the difference analyzed is between common law and civil statutory regime, being admitted that crown servants are subject to the rules of common law while the status of civil servant is reserved exclusively for the agents of the state administration. Also, there is a particular situation in Denmark, where the overwhelming majority of officials are subject to the statutory regime, although in 1969 a contractualist reform was circulated in this regard.

Although they started in the specific conditions of each Member State, legislative regulations in the field of civil service and public officials have

recently converged to values and principles that have emerged since the second half of last century what we now call the European civil service law.

### 3. LEGAL FRAMEWORK FOR EUROPEAN CIVIL SERVICE

Two issues are required to be analyzed to assess civil service regulation of the European Union:

a) The categories of officials covered by the statute, that are subjects to the unilateral legal regime (the officials) and

b) What is the degree of generality of the rules contained in the statute? (Antonie Iorgovan, 2001, p. 542)

Therefore, the acquisition of the position of Community official depends on the valid drawing of the act of appointment, issued by the competent authority. The legal regime of the act of appointment consists of the following features:

- It is a unilateral act, which means that, at the time of issue, the only part that is binding is the issuer itself; the recipient or the beneficiary of the appointment document acquires liabilities only after receiving the appointment act and the express acceptance of the public function or dignity it was issued for;

- It must be issued only in consideration of a vacancy that was filled by public competition or by obtaining an elective position;

- It is an authoritative act, which takes effect only if it was issued by the competent body or institution under the rules of EU law;

- It gives to the beneficiary or recipient the dignity of an EU official, as a legal document bearing the power to constitute rights;

- It is a formal legal act, so it must necessarily be present in material form, as a specific document or a form, which contain specific provisions of appointment;

- It must necessarily declare the issuer, the issuing date, the vacancy position, the beneficiary of the act of appointment, the date of investment in the public function and the investment reasons.

Article 5 of the Statute classifies the officials into 4 categories: A, B, C and D. In addition to these categories, we distinguish the category, which included interpreters and translators.

Officials belonging to the same category are subject to the same conditions of recruitment and execution of tasks during their daily activity. Each category is subdivided in degrees and grades in echelons. With the occasion of issuance the act of appointment, the authority entitled with the vested to public function powers must specify the category, the grade and the echelon envisaged.

Officials in category A are organized in 8 degrees, grouped into positions or careers. In turn, functions or careers are divided into two echelons graduations, so A category includes 16 sub-categories of officials. For these positions, the

rules of EU law require at least knowledge at university level and any higher degree is an asset for the candidate concerned.

Category A officials occupy direction, study and design positions. So, the managing directors are appointed in category A1, executive directors in category A2 and division chiefs in category A3.

Category B includes five degrees, grouped into careers or functions, each of which carries two graduations. Officials of B correspond to application and classification functions, which require knowledge of the level of secondary education (diploma of high school graduation). Category B includes those who receive and analyze information necessary either to Union policies, or to supervise and to respect the EU law, including approximately 2892 persons. (Constanta Călinoiu, Verginia Vedinaş, 1999, p. 25)

The category C contains 5 degrees too, each of them organized by two notches. The officials with middle level education diploma or equivalent professional experience are found in this category, performing tasks of secretary, archive or other administrative activities, on permanent position. Number of employees in category C is twice the number of officials in category B.

Category D groups only 4 degrees and meets officials performing activities involving physical labor. Minimum level of training for staff in this category is primary education, possibly supplemented by a series of technical knowledge required by the specificities of the activities in the targeted position. In this category are usually found the guarding officers and courier service personnel.

In addition to personnel working for community organizations or institutions having the status of civil servants, there are people working according to an employment contract or partnership agreement and they form the contractual staff.

The member of the contractual staff has a different regime from an official because the contractual staff is not entitled to claim a right to develop a career, is not stable in the position held and do not acquire many of the rights included in the STATUT. Contractual staff may benefit from the STATUT provisions only if they specifically refer to that category of workers, otherwise their situation is governed by the rules applicable to the contract which made them a member of the contractual staff. These employees, who work according to the contract drawn in the private law framework, are not directly involved in public service and are not invested with public authority in their work. Therefore, they do not enjoy the same protection as the civil servants of the community.

Among community agents working on contract there are two categories: contract staff serving various Community institutions or bodies located in the European Union and private law domestic contractual agents. In the second category, there are included the employees on a contractual basis to serve a

representative of the Community in a member state of the EU, or personnel to carry out local specific tasks of the Union.

These people only benefit from the Community payment, but all their work is done according to the rules of the system of the law from the state where they work. Moreover, while the European Union Courts (European Court of Justice, Court of First Instance and the Civil Service Court of Law, as appropriate) are competent to solve the disputes about the activities of the contractual staff working for the communities' institutions and agencies, the local courts of law are competent to address for the litigations involving local law contractual staff.

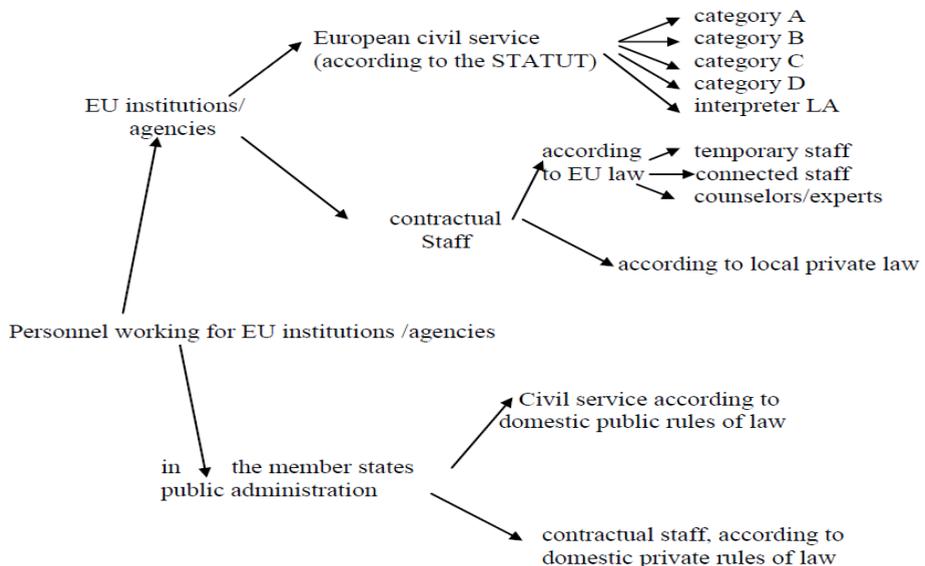
To distinguish the EU contractual staff from the EU civil servants (European officials in the strict sense of the term), we should bear in mind that the specific work of contractual staff always has to be confined to one of the following:

- The member of the contractual staff performs a temporary activity, occupying the position that is for a certain period of time vacant because the owner is, for a period of time, unavailable;

- The member of the contractual staff performs a connected activity to the current activity of the particular agency of institution, taking care of tasks with precarious nature.

There have been situations of misuse of the name of the connected position, although the person was assigned to carry out permanent activities after a certain period of time. In these situations, judges at the European Court of Justice proceeded to re-consider the contract, objectively changing the category for that position (see also ECJ, 01.02.1979, Desharmes, Aff.17/87, Rec. 189).

- the member of the contractual staff has the quality of expert advisor, staff employed in EU institutions because of reputation in a particular field; if the community interests ask for specific skills and competence in a certain field, they will act as contractual staff of Community law, according to a consultancy contract.

**Figure 1. The personnel working for EU institutions and/or agencies**

European civil service is characterized primarily by hybrid character, obeying simultaneously the sources of law governing international civil service (the law of the place of concluding the contract with the international institution/agency) and the national law (statute, contract law and career). Community officials are largely considered international functionary, how could it be otherwise as long as communities belong, it is true, with a large dose of originality, to the family of international organizations. Meanwhile, the European civil service is borrowing certain nationwide patterns. In this respect, the similarities with the French legal framework have long been established. Also, the civil community is marked by a series of factors related to Nordic and Anglo-Saxon administrative law. The connections between the community function and its national counterparts are justified also by the member states practice of sending the national officials to the EU institutions. This mechanism allows the mutual influence of the regulatory system and best practices in the field of civil and public servants. (Rostane Mehdi, 2007, p. 72)

#### 4. EUROPEAN CIVIL SERVICE IN ROMANIAN LAW

The concept of civil service falls under the regulation of public law, specifically administrative law. In Romanian administrative law, it considers that, in general, a public authority includes structural, three elements:

- A certain specific competence, designated by law in force;
- Material and financial resources;

- A well dimensioned staff, divided into compartments, hierarchical lines and positions, some of which forming the civil service officials.

The holder of a public office in a generic form is called civil servant. (Antonie Iorgovan, 2001, p. 525) In our country there is a rich tradition to regulate all matters relating to the public positions in the state government. The issue of civil servants, called "public workers" at some particular time, has always been a major concern for the legislative power institutions and governance systems in the historical evolution of Romania, as a modern state.

The first modern regulations in regard to administrative officials was included in The Organic Regulations, drawn and further amended in the light of The Statute of the Paris Convention. Alexandru Ioan Cuza's Constitution established the principle of appointing people from the executive in order to carry out the activities on behalf of the head of the state. Some early provisions on civil service are contained in the electoral law from 1864, which is integral to that time constitution. For example, art. 26 states that "the electoral mandate of any deputy is incompatible with the functions of ministers, members of the Court of Cassation, the prosecutors attached to the courts of law and tribunals, directors and department heads from various ministries and the militaries on active duty." In the event that a member of the parliament would have received a public law employment, when according to that law, he considered resigned, being unable to exercise its mandate.

Constitution of 1866, in fact the first constitution of the Romania, according to the present meaning of the term, enshrines the principle that the King appointed and dismissed his ministers, he appointed and confirmed the public functions under the law. For example, the Law for the Court of Accounts activity of 14 March 1874 established in art. 8 that the President and members of the court are appointed by the King, "from the list presented by the House of Representatives with the double number of proposed persons." Also, the Law on Organization of the Judicial System stated that during the same period, for every holiday, the Superior Council of Magistracy recommends a number of three judges and lawyers, from which the Minister shall appoint one. (Antonie Iorgovan, 2001, p. 532)

Law of 19 June 1923 represented a common regulatory framework for civil service, pending the Code of civil servants, in 1941. Although well organized in two sides and carefully organized to provide a regulatory framework for all categories of civil servants, the code has undergone many changes until September 1946, when the Law no. 746 for the status of civil servants was adopted.

After the Second World War, the political and social realities affected the civil regulation. Philosophy of that political system was to erase the distinction between "civil service" and "workers under domestic private law", the official

having the status of working person subject to the principles established by the Labor Code.

Regulatory framework for public office continuously changed after 1990, adopting a framework outlining the status of civil servant for police and public sector workers. Moreover, there are recent attempts to develop regulations for the career officials and their transformation into a body of elite professionals.

Thus, Romanian legislation has founded the National Institute of Administration (INA), after the French model in 2001, aiming at delivering professional training for civil servants. INA organizes mainly specialized training courses in public administration for 2 years long, for those who succeeded in a national competition, held each year. This institution was established to comply with both the principle of equal access and fairness to organize a public competition for the position of civil service.

However nominees for senior officials do not contest, they are usually selected based on political views, in a process that does not comply with these principles and continue to promote individuals whose ability and reputation is not always the best. Romania should emulate the model applied by other European nations and create, effectively, a new and independent government.

All legislation is founded on Romanian constitutional act adopted in 1991, which included the same regulation from the constitution of 1923. Thus, art. 16 the final line, enshrines the principle that public office or dignity, civil or military may be filled by people who have Romanian citizenship and residence in the country. The constitutional regulation has spurred adoption of a statute for civil service, as art. 72 of the Constitution expressly nominate this filed among domains which have to be ruled by adopting an organic law.

Since 1950, with the adoption of the first Labor Code, and until 1999 there was not a civil service legal framework, a fundamental change in design being respected, that the civil service has the same legal regime with the employee (labor law regime).

According to the status of civil service, as amended and supplemented by Law 161/2003, "public function means all duties and responsibilities established by law in order to achieve public power prerogatives of the central government and local government and the public official is "the person appointed under this law in a public office."

The principles underlying the exercise of public functions are fully consistent with the basic tasks of government, to serve the people's interests with devotion free from political coercion, prejudice, corruption, abuse of power. Recruitment and selection of public officials should be solely on the basis of competence, so that public office is a professional one, characterized by efficiency and effectiveness.

Adoption by Parliament of the Law no. 188 from 8 December 1999 on the status of civil servants is part of the natural conception of legal status, according

to career civil service system. Statute of civil servants is completed with numerous other normative acts, adopted to improve or supplement the existing framework.

The accession to the EU determined deep changes in the whole Romanian legal system, and also in the administrative area and in the field of civil service. (Elena Rusu- Chelaru, 2007, p. 329)

Still, the administrative law in Romanian and also the legal framework for civil service developed in the last two decades, but still the legislation in force does not give enough guarantees for a public administration with professionals, that understand the mission of the civil service and have the desire to serve the citizen and their country, not their own personal interest.

## CONCLUSIONS

The challenges that the public administration is supposed to face in the coming years are important because they have to solve important public policy issues in a manner to strengthen and to rebuild public trust. Efforts to inforce confidence in the integrity and efficiency of the civil service must be accompanied by a clear understanding of some trends in the field, which reconstruct values and commitments of the civil service itself.

Both the accession of the new member states to the EU and the development of the common policies among them, determined substantial changes in the activities of the EU institutions and agencies. These bodies required a specific group of personnel structure, with strong educational background and particular expertise. As a result, *European Civil Service* is a concept that recently entered into the custom vocabulary for each of us and a new field for researcher in administrative law has opened.

According to the legislation in force and the cases already solved, there are certain special legal rules governing the area, and the analyze of their effect could lead to possible improvements.

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# **SUSTAINABLE DEVELOPMENT – A CHALLENGE FOR THE EASTERN NEIGHBORHOOD STATES**

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**Abstract:** *The European Neighborhood Policy promotes a diversity of significant initiatives which have permitted the EU and its neighbors to develop stronger relationships in all policy fields. One of the main objectives of this policy is promoting sustainable development.*

*This article has three sections. First, a short overview through the history of the European Neighborhood Policy. This is followed by the description of the impact of this policy on two Eastern countries from the EU's borders (Republic of Moldova and Ukraine) and analyses if results were obtained in achieving sustainable development targets by the countries taken into consideration using a qualitative analysis based on the existing field studies and reports. In the third part of the paper we will try to emphasize the actions needed to strengthen the partnerships between the EU and the countries analyzed in order to implement a roadmap for sustainable development.*

**KEY WORDS:** European Neighborhood Policy, economic growth, sustainable development, EU.

## **1. SHORT OVERVIEW THROUGH HISTORY**

In May 2004 the European Union faced the greatest enlargement of its history (in terms of the number of countries, territory and population) acquiring not just ten new member states, but also several new neighbors. Consequently, the external borders of the Union changed, bringing new challenges and opportunities, as a more sensitive and complex zone had become its immediate neighborhood.

The wave of the EU's enlargement to Central and Eastern Europe led institutions to divert attention from domestic political issues to external ones. With the advancement of the Union's eastern border, the Union's foreign policy challenges gradually changed, in terms of risks and intentions. Thus, it was more than necessary not just a simple adaptation or adjustment of the EU's foreign policy towards its neighbors, but more, a redefinition of the policies that were to govern the Union's relations with the states situated in the immediate vicinity. The enlargement increased the EU's interest in developing close working relationships with its neighboring countries.

The expansion to Central and Eastern Europe not only internalized some of the shortfalls of the new member states, but also brought the Union close to an unstable and conflict zone, with low economic development. The EU shares its borders with countries facing many challenges. It cannot afford to be indifferent to the arc of instability that runs from Belarus to North Africa, passing through Ukraine, Moldova, the Western Balkans, the Caucasus and the Middle East. Across the borders expectations were high. The countries from the immediate neighborhood of the EU saw the enlargement as an opportunity to approach prosperous regions with high growth potential, and countries like Moldova and Ukraine reaffirmed their European orientation in hopes of joining the EU.

The EU's neighborhood had become a testing ground for validating the EU's external policy and its diplomacy. The call for a reorganization of the way in which the EU establishes its relations with the neighboring countries increased. This demand led to the conception of the *European Neighborhood Policy*, abbreviated as the *ENP*. The ENP was developed in 2004, distinct from enlargement: while not closing any doors to prospective European members in the future, neither does it implied accession. Rather, the neighborhood policy offered to avoid the emergence of new dividing lines between the extended EU and its neighbors to the South and East.

From its inception, the ENP has developed a variety of significant initiatives, particularly on the trade and economic front, which permitted the EU and its neighbors to enhance stronger relationships in all policy areas.

The ENP was meant to create a ring of friends surrounding the enlarged Union. Through the ENP each country shapes its relationship with the EU individually. The ENP seeks to create stability by exporting the EU model to its neighbors. With the European Neighborhood Policy, the EU has reached out to its neighbors to increase their prosperity and stability, indirectly improving security across Europe. The policy goes beyond existing relationships. It offers a deeper political relationship and economic integration as well as a strengthened co-operation through gradual adoption of European norms and commitment of common values - democracy and human rights, rule of law, good governance, market economy principles, and sustainable development. It presents every neighbor country the opportunity to engage with the EU while following its own path.

Since 2009, the EU implements the Eastern Partnership, the Eastern dimension of the ENP framework, aiming at substantially upgrading the engagement with the EU's Eastern neighbors. The ENP is a win-win policy: helping the EU's closest neighbors achieve prosperity and stability makes Europe a better place to live. Creating an area of stability and shared values outside the EU serves the mutual interest of both the Union and its neighbors, and is an

important element of the EU's own security strategy. It goes without saying that EU's aim, ultimately, is to be surrounded by stable, prosperous neighbors.

Yet, there is room for improving all parts of the relationship. The present studies and reports have pointed out that the EU's support to economic and political reforms in the neighboring states has met with limited results.

Therefore, in May 2011, the High Representative of the Union for Foreign Affairs and Security Policy and the European Commission put forward a new policy response to a changing EU neighborhood. The renewed neighborhood policy put additional emphasis on shared commitment to the universal values of human rights, democracy and the rule of law and involving a much higher level of differentiation.

The new approach aimed at delivering greater support to partners employed in building deep democracy, support inclusive green economy so that the EU neighbors can trade, invest and grow in a sustainable way, reducing social and regional inequalities, creating jobs for their workers and higher standards of living for their people while protecting the environment.

The ENP must continue the engagement for a stronger cooperation with its neighbors despite the turbulent political and economic conditions resulting from the global financial and economic crisis.

## **2. PROMOTING SUSTAINABLE DEVELOPMENT – A MAIN OBJECTIVE OF THE ENP**

Collaboration between the EU and the Eastern neighborhood states is a decisive part of the Union's external relations. EU shapes its relationship with each country individually, through Action Plans, which are the most effective policy instruments used within the ENP.

The Eastern Partnership (EaP) was initiated in 2009 at a summit held in Prague, in an effort by the EU and its Eastern European partners to support and advance political and economic reforms and assist the nations of the region shift closer to the EU. A shared commitment to international law and fundamental values, including democracy, the rule of law and respect for human rights and fundamental freedoms, as well as to market economy, sustainable development and good governance lie at the basis of EaP.

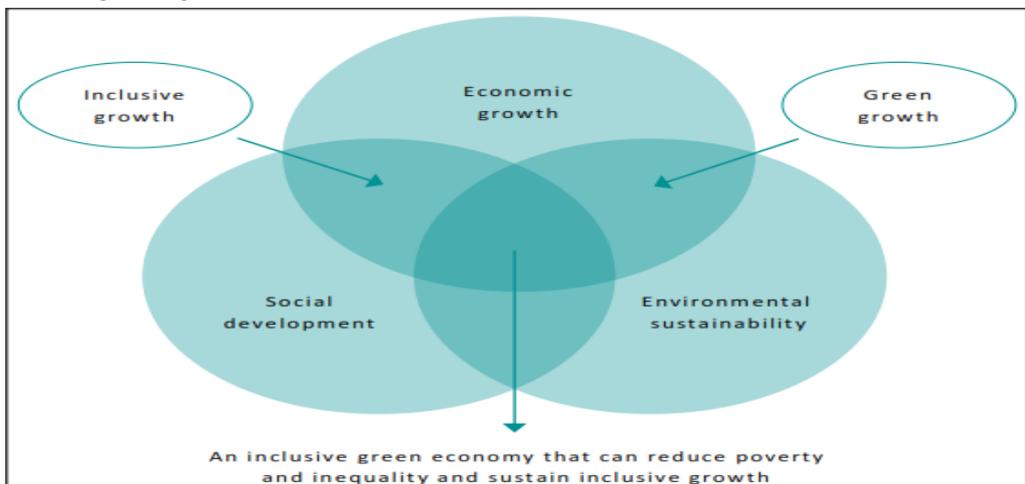
The second Eastern Partnership Summit held in Warsaw, September 2011, reaffirmed the case book assented in Prague and acknowledged that significant progress had been made in a number of areas. However, it has been recognized that the reform efforts needed to be reinforced.

Sustainable development is a fundamental and overarching objective of the European Union, aiming to continuously improve the quality of life and wellbeing for the present and future generations, by linking economic development, protection of the environment and social justice.

Sustainable development cannot be isolated from the other major goals of the European Neighborhood Policy, notably those underpinning human rights, strengthening the rule of law, extending democracy and reducing poverty.

In balancing environmental, economic and social elements, the inclusive green economic development concept evidently has much in common with the notion of sustainable development — thought with a focus primarily on the environmental and economic aspects. Sustainable growth means promoting an economy based on a more resource efficient, greener and more competitive design.

**Figure 1. Inclusive green economic development combines ‘inclusive growth’ with ‘green growth’**



*Source:* Joint Agency Paper, Building an Inclusive Green Economy for all, June, 2012

Progress is a natural purpose of each national economy. The achievement of economic and social progress is based on a decisive factor, that is, the efficiency of use of natural, human and financial resources that the considered economy is dependent on. An inclusive green economic growth, a goal to be touched by any modern society, creating an advanced economy and a high degree of welfare for the population can be achieved only through the effort of human factor to use in a productive way each unit of natural, human and financial resource.

Growth was steady in most of the EU's Eastern Neighbors which continued their recovery from the global crisis.

## 2.1 Republic of Moldova

The Republic of Moldova (hereafter 'Moldova') is one of the Eastern partner states within the ENP. The EU is developing an increasingly close relationship with Moldova, going beyond co-operation, to gradual economic integration and a deepening of political co-operation. The ENP governs the relations between the EU and Moldova.

The existing field articles and studies and the recent European Commission Progress Report on the European Neighborhood Policy highlighted the significant advances made by Moldova and reconfirmed its potential to become the success story of the EaP.

**Table 1** Macroeconomic Indicators

Year \ Indicator	2009	2010	2011
Real GDP growth	-6,5	6,9	6,4
Inflation	0,4	7,4	7,6
GDP per capita	1,092	1,230	1,570
Unemployment	6,4	7,4	6,6
Current Account Balance (% of GDP)	-8,6	-8,3	-11,5
Trade Balance (% of GDP)	-36,0	-39,3	-42,8

**Source:** Eurostat, national authorities, IMF, EC staff estimates, EIU

According to statistics, after a severe downturn in 2009, the economy staged a robust recovery and grew by 6.9 % in 2010 and by about 6.4 % in 2011. Moldova achieved cumulative GDP growth of 15% during the period 2010-2012. The economy recovered and macroeconomic stability was maintained. Therefore, Moldova was capable to continue its successful collaboration with the international financial institutions. Growth became more sustained and poverty was further reduced, as specified in the Action Plan. However, the economic performance slowed down in the final quarter due to the worsening external environment.

At the same time, Moldova took further steps towards improving the investment climate and enforcing structural reforms in the energy and education field. The average inflation rate in 2011 reached 7.6 % (it was 7.4 % in 2010), values lead by the increase in global and domestic food prices and higher electricity and gas costs.

The government has launched significant reforms in areas that include democratisation and freedom of the media, the economy, the police, and

education. It has also invested significantly in infrastructure. In just over a year, Moldova has also moved within reach of completing negotiations with the EU on an Association Agreement and a Deep and Comprehensive Free Trade Agreement (DCFTA), and it has proved effective in implementing a series of reforms - including on border management which stem from the ongoing visa dialogue with the EU.

To sum up, in the recent years, Moldova recorded several positive trends, especially in poverty alleviation, good governance, social assistance, health and education, energy, competition and state aid as well as regulatory approximation to the EU acquis. It finished the remaining steps under the first phase of the visa liberalisation action plan. The economic growth tendency recorded since 2010 reflects and supports this new environment that leads to innovation and positive change in Moldova. In 2012, Moldova achieved most of the key recommendations contained in previous year's ENP Progress Report. Yet, Moldova's GDP per capita remains the lowest in Europe.

Moreover, disparities between urban and rural areas have deepened and residents of the Transnistrian region faces a particular decline in income and access to basic services, so the gap between the levels of development is increasing. The rate of poor people living in rural areas has increased. Repeated external shocks that the country has undergone, such as droughts, floods and export restrictions, have slowed and undermined the efforts of the authorities to change the actual pattern of economic growth. Corruption and strong political forces backing government controls are other factors that influenced the slow implementation of the economic reforms. The economy continues to be vulnerable to political uncertainty, weak administrative capacity, bureaucratic interests, high fuel prices and the concerns of foreign investors as well as the presence of an illegal separatist regime in Moldova's Transnistria region.

Environmental degradation is also a major challenge due to poor efficiency and high dependence on foreign energy sources. Climate change is increasingly recognized as a major challenge in Moldova, in particular because the country relies on agriculture and there is a large proportion of the rural population and rural poverty. There are already visible consequences of climate variability, significant and repeated droughts and floods are prominent examples.

Consequently, much space for improvement remains in the areas of continuing: to implement reforms in the justice and law enforcement system, the privatisation process, to strengthen the administrative capacity, taking steps in strengthening shareholders transparency in the banking sector, fighting against corruption and the reform of the judicial system, taking further steps to improve the business environment, the reforms and regulatory approximation to the EU acquis in trade and trade-related areas, strengthening the energy sector reform, to engage the cooperation with the Transnistrian side in view of promoting a mutually acceptable vision for a common future, the privatisation process, the

framework legislation on environmental protection as well as on environmental impact assessments etc.

## 2.2 Ukraine

As in the case of Moldova, the EU is developing an increasingly close relationship with Ukraine, going beyond co-operation, to gradual economic integration and a deepening of political co-operation. The ENP governs the relations between the EU and Moldova.

**Table 2** Macroeconomic Indicators

Year \ Indicator	2009	2010	2011
Real GDP growth	-15,1	4,2	5,2
Inflation	18,3	9,4	4,6
GDP per capita	1,832	2,206	2,866
Unemployment	3,4	2,2	2,1
Current Account Balance (% of GDP)	-1,5	-2,2	-5,4
Trade Balance (% of GDP)	-3,7	-6,1	-8,1

**Source:** Eurostat, national authorities, IMF, EC staff estimates, EIU

In 2011, Ukraine's economic recovery continued, with a relatively strong growth performance (5.2%) and inflation (4.6%) largely under control. The official unemployment rate is at 2.1% (2.2% in 2010).

At the same time, Ukraine took further steps towards launching significant reforms in areas that include trade-related issues, cooperation on justice, freedom and security issues, transport, energy, education and health.

Ukraine started the implementation of the transport strategy until 2020 by the development and elaboration of transport sub-sector programmes. Ukraine joined the Energy Community in 2011. The country wants the modernization of the gas transit system and also initiated a comprehensive risk and safety assessment of its nuclear plants, taking into account the EU standards. Ukraine made progress in the implementation of the first phase of the Action Plan for Visa Liberalisation. The first Progress Report on the implementation by Ukraine of the Action Plan was presented in September 2011, the second one in February 2012. Legislative acts were implemented regarding the issues of combating money laundering, organised crime, trafficking in human beings and financing of terrorism. The EU and Ukraine completed the negotiations on a DCFTA as part of a future Association Agreement.

In 2011 the business climate deteriorated. The major obstacles to doing business that were reported are corruption, pressure and harassment by various authorities and a general deficiency of the rule of law. The Programm for Economic Reforms for 2010-2014 has been slow due to the external environment. Also progress in enforcing structural reforms to boost competitiveness has been slow.

Ukraine adopted a national environment action plan for 2011-2015 to implement its new environment strategy approved in 2010 and took further steps to prepare legislation on emission trading.

Being a post soviet country, Ukraine has quite a legacy in terms of industrialization, it was the industrial hub of the soviet system and then pollution is still present, it is also a very energy inefficient country, it is facing a decline of agriculture (including soil degradation), biological diversity reduction, social problems such as the increasing gap between the poor and the rich, 40% of Ukrainian households suffering from bad social conditions, reduction and deterioration of the labor potential, increased migration of working population – especially young people etc.

Moreover, Ukrainian mass media rarely provides information on sustainable development. The ecological culture of the citizens of Ukraine is still rather low. There are significant economic, social, cultural, mental and other differences between the regions of Ukraine.

The actual social and economic situation proves that the country hasn't implemented a strong sustainable development path yet.

The existing statistics and studies and the recent ENP progress report highlights the fact that the key recommendations contained in the report still need to be acted on. This is because Ukraine is still behind the developed countries in living standards indicators, level of investment attractiveness, competitiveness and sophistication of innovation environment.

Hence, much space for improvement remains in the areas of continuing: to strengthen the administrative capacity, fighting against conflicts of interest and corruption and the reform of the judicial system, taking further steps to improve the business climate, the reforms and regulatory approximation to the EU acquis in trade and trade-related areas, strengthening the energy sector reform and addressing issues as fiscal sustainability in the energy sector, the framework legislation on environmental protection as well as on environmental impact assessments etc.

### **3. ACTIONS TOWARDS IMPLEMENTING A ROADMAP FOR SUSTAINABLE DEVELOPMENT**

After surveying the existing literature, focusing on the European Commission Progress Reports on the European Neighborhood Policy, in order to

analyse the impact of this policy on the two Eastern countries from the EU's borders (Republic of Moldova and Ukraine) we can conclude that the road to achieve a sustainable development path is more complex than at first glance.

It is obvious that the ENP has magnified the EU's position and role in the international stage and enhanced the credibility of its foreign, security and defence policies within its soft power framework. In spite of all this, it has been identified that the policy is by no means perfect and there is a purpose for further improvement in terms of its effectiveness.

However, economic and social challenges in our neighborhood are huge. Poverty is frequent, life expectancy is often low and youth unemployment is high. Natural assets are being eroded and the rising food and energy prices have upsetting results through the neighborhood. Most partner countries have fragile and poorly diversified economies that remain vulnerable to external economic shocks. Negative growth, rising unemployment and an increased gap between rich and poor are likely to trigger instability.

We all aspire to reach a better quality of life. Yet, this will not be possible by following the present growth pattern. We stand in need of a practical twenty-first century development design linking the dots between the key issues of our time: poverty reduction, job generation, inequality, climate change, environmental stress, water, energy and food security.

Sustainable development is increasingly recognized as an alternative pathway that can provide low-carbon and climate-resilient development, considerable improved resource efficiency, healthy and more resilient ecosystems, social inclusion and greater economic chances and social justice especially for the poor who depend firmly on the environment for their livelihoods, health and well-being.

Accelerating the transition to a more efficient roadmap towards sustainable development, with a particular emphasis on an inclusive green economic development path demands innovations from all parts of the world and new ways of global collaboration that go beyond the two-dimensional distribution between "developed" and "developing" nations. Policy learning and experience sharing must be advanced in all directions. All stakeholders have relevant roles to perform. Governments and other stakeholders – poor and vulnerable groups and their local structures, NGOs, the private sector, and development partners – will call to join forces and discover new and innovative modes to work together for building an inclusive green economic development path for all.

Moldova and Ukraine have still scant and poor diversified economies that continue to be vulnerable to external economic shocks.

The two states are still low-income countries, consequently growth and development will need to be established on improving agricultural production and generating sustainable revenue from non-renewable natural resources such as oil and minerals and renewable natural resources such as forests and water. In

order to enforce a truly sustainable track, especially under climate change, Moldova and Ukraine must be capable to incorporate the value of natural capital into their national development projects. The promotion of an inclusive green economic development road is less about transformation of existing structures and more about putting in place policies and systems to influence future choices. Transitioning to this road will not be automatic. It must be specific to the context of each country and must provide a framework for a shared policy agenda between a country's government, civil society, the private sector and international development partners. Supportive policy, institutional and governance reforms and targeted investments are required to remove barriers and to allow all the members of the society to join in, contribute to and take advantage from the transition.

In the fight against poverty, Moldova and Ukraine should insure economic, social, and territorial cohesion by supporting the poor and socially excluded and empowering them to perform an active role in the community. The two countries should ensure political and informational support in implementing a strong sustainable development policy.

Policy makers should pay attention to resource allocation and efficiency of any of their use, stimulating economic environment and social progress. Resource productivity is a way of expressing performance and economic efficiency. A competitive economy is an economy capable of generating economic growth, high efficiency and long term. Given that currently the environment as a whole is regarded as an economic resource, these countries must take into consideration implementing a healthy and successful industrial, technological, economic and social policy for green growth.

The GDP growth has been proven to be not sustainable without social and environmental input.

Environment is the key factor to continue human survival so the ENP countries should aim to implement a comparable level of environmental protection to that of the EU. In the context of DCFTA, what could and should be achieved is stronger trans-border cooperation and harmonization with European norms.

The ENP is a partnership between the EU and its neighborhood states. In trying to achieve a strong sustainable development path for its member states the ENP should support partner countries adoption of policies conducive to stronger sustainable and more inclusive growth, job creation and improving social protection, strengthen the business environment, build regional development programmes to tackle economic disparities between regions, support and implement strong agricultural and rural development, improve effectiveness in the decision-making process, engage a much closer contact between the EU and NGO's and build partnerships with societies, focus more on knowledge and innovation, climate change and the environment, energy, transport and

technology. People must have access at pertinent information all the time. Information helps citizens to play their crucial role in providing policy inputs and holding governments to account.

Accessing a correct way towards an intelligent sustainable development path in a globalised world requires profound changes in thinking, in economic and social structures and in consumption and production patterns.

## **CONCLUDING REMARKS**

The concept of sustainable development refers to a process that involves changes or development. The strategy aims to achieve a continuous improvement in quality of life and the emphasis is therefore on supporting the improvement of life quality. Therefore sustainable development is less a search for a stable equilibrium, but rather a dynamic concept which recognizes that change is inherent in human societies.

The official objective of the ENP is to help neighbors develop and modernize their economic, social and political issues by anchoring them to the European model. Accepting the principle of sustainable development involves combining economic, social and environmental elements.

For the developed countries, the issue of improving life quality, reducing poverty, non-pollution etc. is one of transformation, adaptation and modernization. Also, changing the trend of economic growth to a sustainable one in these countries is supported by political and technological will and resources. Chances of success are very high.

For underdeveloped countries the problem arises in completely different terms, related not to modernization but to a drama stage. If, at times, the issue is not about life quality but about survival, it is understandable what order of priority has sustainable development within these countries policies.

Moreover, the direct relationship between the economic development in developing countries and the levels of environmental degradation became increasingly obvious. Overwhelming poverty and increasing population increases the problem of environmental management. Health and economic welfare of people living in poverty depend on a range of environmental resources: fresh water for drinking, sanitation and agriculture, fisheries and fertile soil for food production, forest various products of forest and marine ecosystems. But when natural resources are not used properly or when the air, soil and water are polluted, poor and economically vulnerable people are those who suffer the most.

Environment is the basic factor to continue human survival and long-term prosperity of mankind is unthinkable if we are not able to ensure that future generations can enjoy the full benefits of nature. At the same time, development

is needed to tackle poverty in developing countries and to empower people everywhere to live in a civilized manner in a more favorable environment. Sustainability considers that economic progress must be fully integrated to the environment. Economic growth has been proven to be unsustainable without social and environmental input.

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# THE NEED AND EFFICIENCY OF MIGRATION POLICIES IN ROMANIA

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**Abstract:** *The intention in developing the study of migration policies in Romania and the perspective from which the theoretical and empirical analysis will be made answers to the problem of external migration policies inefficiency in Romanian society. Based on previous analyses, the external migration reality problem in Romania and hence the inefficiency of the related policies is primarily connected to the update of this reality. The paper’s emphasis is on representation and social action. Hence the methodology used in this analysis. We do not try to "set" or "re-discover" the Romanian migration reality, but choose to search the common aspects of European migration policies and the common identification elements in terms of the Romanian migrant population. The aim of this paper is monitoring migration and migration policies in Romania, being brought to the fore the socioeconomic consequences of migration. The initial hypothesis is given by the process of identification of the elements that hinder the effectiveness of migration policies in Romanian society. These elements provide the reality and permanence of these policies and of a collective identity. Finally, conclusions and proposals are issued for a better management of the migration phenomenon in Romania.*

**Keywords:** migration, migration policy, economic development, identity, integration

## INTRODUCTION

The current economic crisis reinforces the need for more comprehensive migration policies. Migration policies are a priority of internal and external policies; they are a necessity for sustainable development. Migration strategies and migration policies require a rapid response which determines a pressure towards the continuous renewal direction, as international migration proves to be, namely dynamic.

Romania does not have a very well defined policy in terms of employment that includes migration issues. Although there are communities with a high migration rate, local authorities have taken measures to prevent adverse social effects, but their impact cannot be estimated without prior research.

The migration phenomenon requires clear, consistent policies and measures or fairly and well disseminated nationally through reforms, in key areas such as education, health and locally through programs and local development projects which would include the negative impact of migration on migrants’ families and the

children left at home. Romania is a country "exporting" human capital. Policymakers should be concerned about Romania's inability to manage migration. The lack of strategies aimed at a clear management of Romanian immigrants places our country in an unfavorable position. For an effective management of migration we should issue laws and establish mechanism of implementation of the European immigration policies. Equally important is the dialogue between host and home countries, between decision-makers and civil society. The results obtained by researchers in the field of migration policy should be implemented in policies applicable at national and European level.

### **1. ROMANIA'S ROLE IN THE EUROPEAN UNION EASTERN PARTNERSHIP**

The movement of the border of the European Union towards East represented the context of the emergence of the European Neighbourhood Policy (ENP), and required the redefinition of the institutional framework and policies in relation to the new neighborhood. As a Member State, Romania has supported and continues to support the objectives and priorities of EU foreign policy. The new context of the ENP and the Eastern Partnership appearance causes our country to come up with clear policies on stability and security of national borders and of its citizens who are in the country or abroad. Eastern Partnership is the recent initiative ([www.msz.gov.pl](http://www.msz.gov.pl)) in the regulation of the EU neighborhood relations that goes beyond the deepening of the bilateral cooperation and of further integration with Eastern partners. The objective of this partnership officially launched in May 2009, during a Summit in Prague, is to support the six countries in their process of development and harmonization with European standards, respecting the principles of differentiated application, conditioning and joint responsibility of the states which are partners with the European Union (Mocanu, 2009, p.14).

It would be interesting to consider to what extent our country contributes to the process of implementation of the Eastern Partnership, considering the potential political dialogue. As a transit country Romania could play an important role along with the appearance of new opportunities and challenges. Romania supported the ENP ever since 2004 as a candidate state, subsequently asking for the reform of ENP (Mocanu, 2009, p.16). Since 2007, Romania has taken a pro-active role in the European Neighbourhood Policy as the Union's eastern border country. For Romania, the Eastern Partnership involves the development of a "new culture of cooperation" ([www.sipri.org](http://www.sipri.org)) and serves mainly for the new European identity ([presidency.ro](http://presidency.ro)).

Also, as a country with a large number of people left to work in Europe, Romania is invited to contribute to a better management of EU borders, including through the application of the *Global Approach to Migration* ([www.era.int](http://www.era.int)) to ENP

partners countries, Ukraine and Moldova, all the more so as migration flows from Romania have increased after 2000.

Whether or not Romania is able to manage the challenges related to the European and national political framework in general and to migration policies in particular, remains to establish together by highlighting the key measures required for the solving of problems identified at a social, political and economic level in our country.

One aim of this paper is to highlight once again, the reasons why Romania should actively support the transboundary European perspective, especially by starting some measures and initiatives in the field of external migration, of migration policies in Romania. It is important to note to what extent and in what areas migration policies prove to be effective in practical terms. For this reason, we identified the major problems of Romanian migration and proposed measures in key areas, measures able to provide solutions to these problems.

## **2. RESEARCH METHODOLOGY**

This paper contains issues related to the results of the research on Romanian migration in Italy in 2010-2011<sup>1</sup>, research conducted on a sample of 30 interviews and 120 questionnaires. Sociological research methodology includes: the *theoretical framework* based on the analysis of dominant theories of international migration research, considering the three levels of analysis (micro, meso and macro); the *conceptual-operational apparatus* contains the operational analysis of key concepts (migration, migration policy, identity); the methodological framework which concerns the relationship between the methods, techniques, processes and tools and their suitability to the object of study from the PhD thesis. The theoretical framework is constructed within the limits of: psychosocial and sociological perspectives.

## **3. MIGRATION POLICIES NECESSARY TO COMBAT THE ADVERSE SOCIAL EFFECTS FOR ROMANIA**

Amid the manifestation of effects of international migration known to Romania, the Romanian state should play an important role in controlling the phenomenon to provide protection and support to its citizens abroad. Romania must clearly establish what it did and what it can be done to reduce the negative effects and increase the positive ones. The migration of so many Romanians abroad cannot remain neglected by the migration policies.

The interest of this paper is not a general one, directed towards the migration policies, but a specific one related to the appropriate measures that have to be taken by Romania in the field. The sets of rules and institutions associated with external circulation, according to the data issued by the Open Society Foundation (ESF) are: the inputs and outputs of a space for the exercise of state authority; the stationing of

foreign nationals in the space, and the situation of nationals in another state (Serban Stoica, 2007, p.6).

The migration policies necessary to combat the adverse social effects for Romanian society nowadays were briefly analyzed and grouped by the author in the doctoral thesis mentioned above. This is why we come back with an extensive analysis of this subject in this paper, emphasizing each time the effects and the importance of addressing each policy separately. We're talking about policies that can respond to current problems of Romanian migrants left to work or study abroad and about the problems faced by migrants' families back home. Responsible for migration policies in Romania are not only decision-making bodies of the Romanian state, but also those of the country of adoption of those migrants.

Thus, for a smooth and effective solution to migration we should consider those migration policies aimed at:

- Policies on the impact of migration on economic development
- Policies to support migrant families back home and their children
- Policies to integrate migrants
- Policies for international cooperation on migration.

This analysis includes a particular form of migration called migration for work or study abroad. The identification of measures which aim at this type of migration starts mainly from the particularities of Romanian migration in recent years. We should mention here another three important aspects taken into account when it comes to the measures imposed within migration policies, namely: the protection of Romanian citizens working abroad; bilateral agreements on labor movements, social security for migrant workers.

The policies proposed in the paper are important landmarks for the establishment of migration policies providing solutions for a better development of institutional capacities of those involved in the decision-making on international migration phenomenon.

### **3.1. Policies on the impact of migration on economic development**

The policies regarding the impact of migration on the economic development are aimed at improving policies and easing exchange controls to encourage the use of remittances for investment, also by strengthening the financial sector infrastructure and facilitate international travel to increase remittance flows, generating multiple official money transfer channels.

Migration can have significant effects especially in developing countries. Therefore good migration policies must go beyond local impact and take into account the reciprocal global effects. These reciprocal effects are often stronger in the context of economic development. Here, what is called development-migration-development represents the link to all that means development and is an important concern. Migration is based on the relative differences in terms of the economic

development between the countries of origin and that of destination of migrants, however, there is evidence which shows that migration itself may have an important impact on economic development, especially in poorer countries experiencing significant outflows of migrants.

Since 2000 there has been a remarkable resurgence of the interest regarding the migration – development relation. The emphasis was initially on the consequences of this relationship in the country of origin of migrants and came from the policy makers and scientists. An example in this respect is famous Professor D. Ratha who analyzes the trends regarding the migrants' remittances and their impact on economic growth (Ratha, 2003, p.157). Ratha also examines the relative importance of remittances of migrant workers as a source of financing for development and talks about industrial measures in developing countries which could lead to economic growth. The main themes proposed for taking effective measures regarding the migration policy establishment are: the remittances are the second largest source of external financing for developing countries; improving the policy and easing foreign exchange controls may lead to the encouragement of the use of remittances for investment; by strengthening the financial sector infrastructure and facilitating international passenger traffic, countries can increase remittance flows, thereby generating more funds into official channels; facilitating international labor mobility is a key means of increasing remittance flows in developing countries. According to Ratha's opinions, international migration is a precondition for remittances.

A first step here would be to identify the ways in which those systems should use the impact migration has for economic development and poverty reduction.

The economic impact of migration on host countries is a:

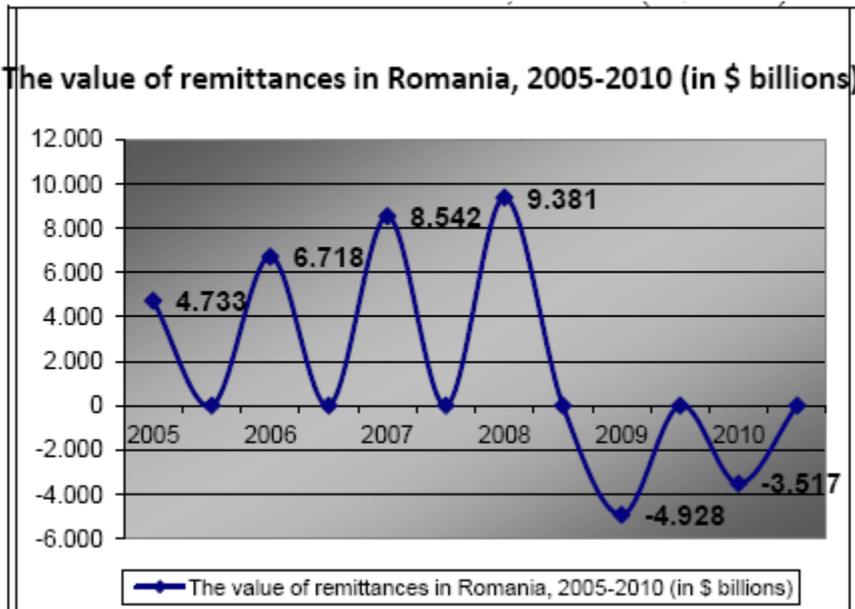
- short-term impact, given the preferences of the resident labor force in developed countries, migrant workers are likely to fill most dangerous, difficult, dirty, risky vacancies, unoccupied by locals;
- medium impact, industries in developed countries facing critical vacancy can benefit from job offers recorded in excess from developing countries (for example in Romania the exodus in recent years focused on healthcare, IT);
- long-term impact as rising dependency ratios in developed countries, there is a need to attract migrant workers to maintain a dynamic economy.

The positive economic impact on the countries of origin of migrants refers to the money that migrants send home. This money contributes significantly to the welfare and to the welfare of the countries involved in the act of migration. If migrants return home permanently or temporarily, with new skills that they can use, then home communities can benefit from them.

Macroeconomic effects of remittances are difficult to quantify and measure due to the multiple interactions of the macroeconomic variables. This is the reason why empirical studies on remittances data in most countries are only at the microeconomic level and less at the macroeconomic level. Another reason that

follows from this is that most of the countries that record major remittance inflows do not declare the exact amounts centrally and therefore the information arriving at the World Bank is often incomplete. However, most researchers consider that remittances have significant effects on investments and savings. The most visible impact of these transfers are recorded on household consumption, so important at the macroeconomic level, being recorded in the domestic aggregate demand, component of the gross domestic product (GDP). Money transfers to households are direct sources of income growth, which leads to increased consumption and to the temporary reduction of poverty. These amounts have the ability to reduce social polarization through their redistributive effects but also to significantly increase social inequalities within migrant-sending communities. In Romania a particular concern would be the impact of remittances and their macro- and micro-economic consequences. Temporary migration tends to increase the flow of remittances, as compared to permanent migration, especially when it involves skilled professionals, waiting to return to their country of origin.

Studies on the effects of migration in Romania show that if Western countries continue to attract labor from our country, economic growth will be affected considerably. Mediafax ([mediafax.ro](http://mediafax.ro)) also informs that Romanians working abroad sent during 2005-2010, nearly 40 billion dollars, more exactly 38.819 billion dollars in the country, the best years being 2007 and 2008, and the worst 2010, according to data and estimates of the World Bank (WB). The number of Romanian immigrants was 2.769 million in 2010, representing 13.1% of the total population. The amount sent home in 2009 by workers who worked abroad represented 4.4% of GDP. The value of remittances rose sharply in 2005-2008, from 4.733 billion dollars in 2005 to 6,718,000,000 dollars in 2006, 8.542 billion dollars in 2007 and 9.381 billion dollars in 2008. Subsequently, the amount fell sharply, from 4.928 billion dollars in 2009 and an estimated level of 4.517 billion dollars in 2010 due to the economic crisis ([wall-street.ro](http://wall-street.ro)). (view Chart 1)

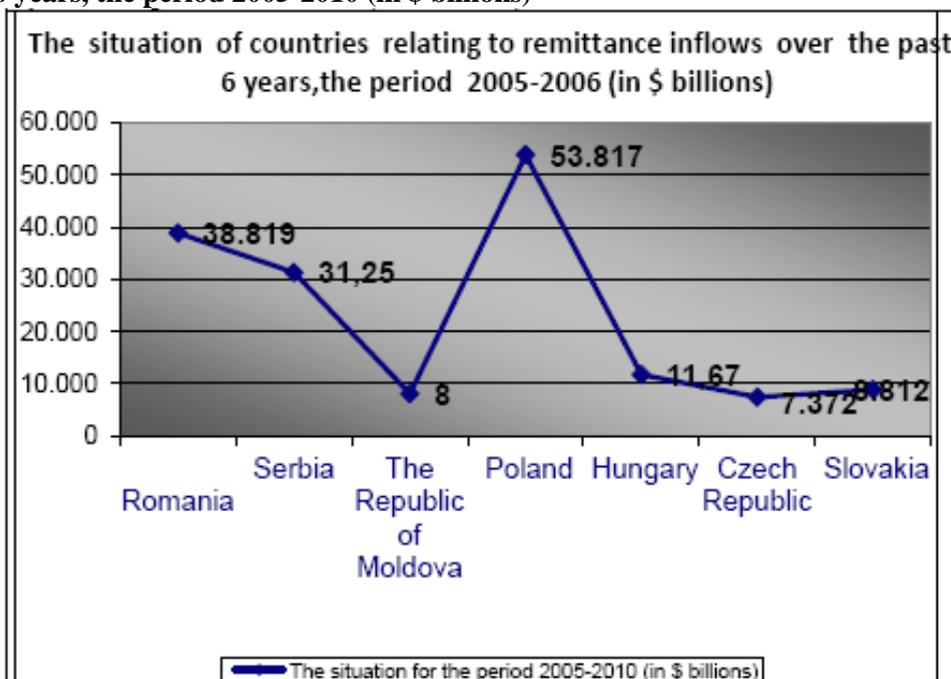
**Chart 1. The value of remittances in Romania, 2005-2010 (in \$ billions)**

Source: Feraru, P.D. (2011) *Migrație și dezvoltare. Aspecte socioeconomice și tendințe* (Migration and development. Socio-economic aspects and trends), Iasi: Lumen Publishing House, p.122.

Thus, Romania was exceeded in the last two years by Ukraine on remittances, the amounts sent home by the Ukrainians exceeding \$ 5 billion each year. According to data provided by the World Bank, more than 6.5 million Ukrainians live abroad. Poles sent home 53.817 billion dollars in the last six years. Approximately 3.102 million Poles, or 8.2% of the population live outside the country.

Hungary has attracted over the past six years remittances of 11.67 billion dollars, Bulgaria has achieved 10.05 billion dollars from this source, and the Czech Republic 7.372 billion dollars. Remittances to Slovakia totaled 8.812 billion dollars between 2005 and 2010, and Serbia received 31.25 billion dollars. The Republic of Moldova recorded inflows of 8 billion dollars over the past six years, when, in 2010, 21.5% of the population lived outside the country, and the value of remittances in 2009 was 23.1% of GDP. (view Chart 2)

**Chart 2. The situation of countries relating to remittance inflows over the past 6 years, the period 2005-2010 (in \$ billions)**



Source: Feraru, P.D. (2011) *Migrație și dezvoltare. Aspecte socioeconomice și tendințe (Migration and development. Socio-economic aspects and trends)*, Iasi: Lumen Publishing House, p.122.

Another solution are the measures that the Romanian government should take to increase the remittances of its migrants abroad by improving policies and relaxing foreign exchange controls to encourage the use of remittances for investment, and also by strengthening the financial sector infrastructure and international travel to increase remittance flows, generating more official money transfer channels. The solutions offered by migrants by remittances are short-term or medium-term solutions. Remittances cannot trigger development in unattractive investment environments. Therefore, to enhance the contribution that migration and remittances bring to development, to social development, in particular, policies need to be rethought, reformed. In this case, we refer to those policies aimed at increasing people's wellbeing and quality of life, the functioning of markets, social security, improving public services (health, education). Population migration has nowadays become a topic of global importance for the development and welfare societies. More information about the relationship between migration and development, the role of remittances and trends of the phenomenon can be found in the volume *Migrație și*

*dezvoltare. Aspecte socioeconomice si tendințe* (Migration and Development. Socioeconomic Issues and Trends) published in 2011.

### **3.2. Policies to support migrants' families back home and their children**

Policies to support migrants' families back home and their children refer to a series of programs and projects conducted locally, regionally destined to include the negative effects of migration.

The solutions we propose address the solving of any issues identified in the research. The main directions of action of a national strategy for population and development are in this case: migration and migrants' families. The solutions suggested for solving the problems identified in this paper aim at: (1) developing a coherent migration policy in Romania based on a preliminary investigation of the current situation and of the impact of migration, (2) improving the quality of human capital by developing policies of capital increase, increasing flexibility on labor market correlated with job security.

The concrete measures are: (1) Family Services to restore the status and prestige of the families of immigrants, (2) the development of a policy to optimize the temporary international migration: increasing the economic and social benefits of their employment abroad, providing community and regional benefits in the home country, and avoiding the conversion of temporary international migration into permanent migration, (3) developing a long-term strategy on the labor market.

A more comprehensive analysis of the effects of migration on human development, on the Romanian immigrant children left at home, can be found in the article published in 2011, considering the leaving of Romanians to work, a departure which is temporary or circular, a back and forth departure, but the effects on children can be similar to those of a long-term or even final separation. The conclusions of the study show that the tragedy of this situation which lies precisely in the fact that most mothers leave their children in the care of others at home and go to Italy to take care of children there. Because of this, children have poor results at school, having conduct disorders or suffering from anxiety (Feraru, 2011b, p.122).

According to estimates, there are about 350,000 children in Romania who were left alone by parents working abroad. In addition, it is estimated that another 400,000 have experienced at a time in their lives, the leaving of one parent abroad. On the whole, from a total of 5 million Romanian children, 750,000 were left at home by their parents who ventured into the world in search of fortune. It is calculated that in Romania there are at least 40,000 children whose parents left to work in Rome ([www.clickromania.co.uk](http://www.clickromania.co.uk)). There are numerous studies in Romania about the sufferance caused by family separation after the departure of parents to work abroad and the granting of guardianship to relatives or friends. These so-called "white orphans" grow away from their parents and are at risk of getting in situations of degradation, violence and extreme loneliness.

In Romania, the law recently approved tacitly by the Romanian Senate, provides imprisonment up to 10 years for parents who abandon their children. The serious problem of the children left at home cannot be solved by criminalizing their parents and sent them to prison. Those people have fled because they could not earn their daily living. The state should give these people jobs and the opportunity to raise their children at home, and in case they leave they should support family reunification, either in Romania or abroad. The state should implement several initiatives to influence the current situation: support the adaptation of the children in the new country after a possible family reunification, request support from mayors of the towns of origin, for technical cooperation and the creation of local committees to support children at home, involving the associative environment, the establishment of bi-national committees under the aegis of a national department.

### 3.3. Policies for migrants' integration

The policies for migrants' integration refer to economic, social and cultural aspects and aim at eliminating all forms of discrimination and at encouraging the actual "newcomers". It is necessary to implement a process of awareness, information and education for cultural diversity, improving the measures which promote integration within the existing structures in schools, organizations and associations.

The general condition for successful integration is related, for most of the 30 respondents, to issues concerning the rights and obligations which should be the same as those of the locals. (view Box 1)

#### Box 1

"Their interest is to integrate. The Italian is interested in integrating the immigrant because an integrated person is a person who tries to obey the laws and lifestyle of that country. "

(male, 33, nurse, for 5 years in Italy)

"Yes, I am completely integrated, I pay taxes to the state, I had employees at the firm, now I don't have anymore."

(male, 37 years old, builder, for 8 years in Italy)

"I do not know, I built but I find it very difficult for a service."

(female, 29 years old, translator, for 4 years in Italy)

"Yes, I worked in a team formed more of Romanian people, but I integrated fairly quickly, because I worked with my father-in-law."

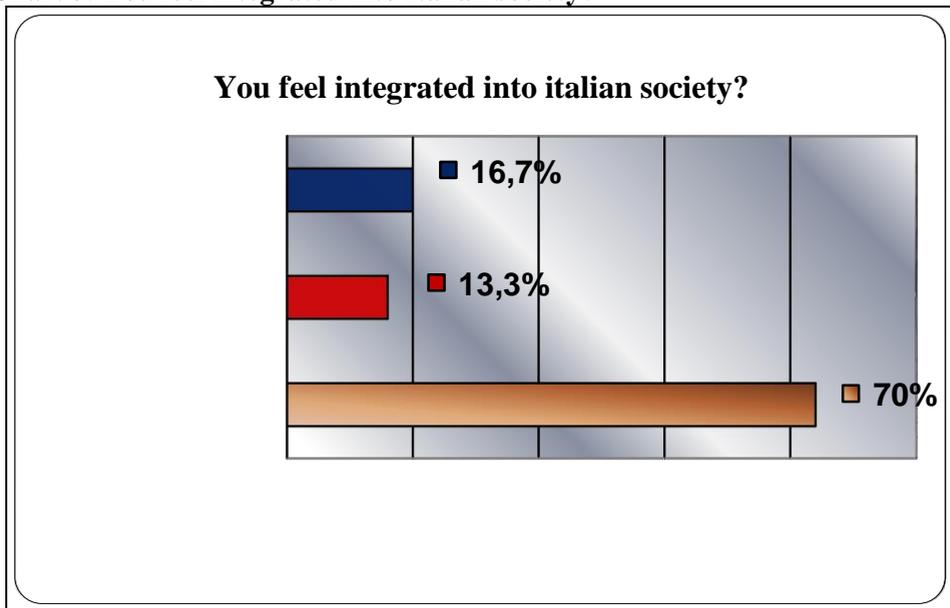
(male, 40 years old, builder, for 6 years in Italy)

Source: Feraru, P.D. (2011) teza de doctorat *Religie și migrație în România contemporană. Studiu de caz: Românii din Italia* (PhD thesis *Religion and Migration in Contemporary Romania. Case Study: Romanians in Italy*).

There were subjects who made number of proposals regarding a possible improvement of Romanians' integration in Italy. But in almost all cases, suggestions refer to actions which must not solely address Romanian communities, but all migrants in Italy.

Asked whether they feel integrated into the Italian society, of the 60 Romanian students, respondents in our study most of them (70%) responded that they felt integrated, 16.7% answered "I do not know / I cannot say" and the percentage of 13.3% said they did not feel integrated in Italy. (view Chart 3)

**Chart 3. You feel integrated into Italian society?**



Source: Feraru, P.D. (2011 ) teza de doctorat *Religie și migrație în România contemporană. Studiu de caz : Românii din Italia* (PhD thesis *Religion and Migration in Contemporary Romania. Case Study: Romanians in Italy*).

In an attempt to assess the relationship between the variables *integration* and *gender* of those surveyed, we noted that most individuals (30) of 60 said they felt integrated in Italy; they were women and only 12 men said they did not feel integrated in Italy. (view Table 1)

**Table 1. Sex \* Staff will consider integrated into Italian society? Crosstabulation**

		Staff will consider integrated into Italian society?			Total
		Yes	No	I do not know/cannot appreciate	
Sex	Female	30	4	6	40
	Male	12	4	4	20
Total		42	8	10	60

Source: Feraru, P.D. (2011) teza de doctorat *Religie și migrație în România contemporană. Studiu de caz: Românii din Italia* (PhD thesis *Religion and Migration in Contemporary Romania. Case Study: Romanians in Italy*).

In conclusion, some immigrants integrate through study, some through labor, by working they must comply with the rules of that society, then through children. There is a double integration, of the parent once integrated and of the child who pulls its parents. The parent lies between two cultures, his/her culture and the child's culture through the world and culture learned at school. Secondly, a person gets integrated by his/her own work performed at destination.

The existent reality from the Romanian communities in Italy on education imposes proposal of solutions required to support legally and financially these communities of Romanian immigrants. To establish a series of guidelines for this research, we used a horizontal approach in the analysis of the data in which integration can be achieved by working to improve living and working conditions of immigrants in distress.

### **3.4. Policies for international cooperation on migration**

Policies for international cooperation on migration are imposed as a result of massive emigration of Romanians. External migration of Romanians called for the need of a joint management of the phenomenon on the basis of the exchange of information and international control.

Current migration policies in Romania are limited to the event type idea on migration, remittances and transnational commitments. But for migration some preconditions with regard to awareness, the inclusion of migration as a topic and of mobility on Romania's institutional agenda are required, so as to establish a policy. This requires the awareness of institutions which can intervene and play a role in this problem. It is also necessary to strengthen the institutional capacity of stakeholders. Or, under current conditions the attention is no longer directed towards structural constraints and the important role that the states and institutions play in the delineation of general favorable conditions for economic and social development.

The promotion of public policies aimed at controlling immigration flows (controlled migration) intended to limit spontaneous forms of immigration and promotion of controlled contractual forms. This happened because the distinction between spontaneous and contractual migration occurs in case of the public policies on immigration, despite the fact that migration tends to become autonomous and develop its own perpetuation mechanisms. Thus, we can see a duality between migration control (promoted by the state) and migration / migrants. Therefore the state institutions must be involved in recruiting migrants, having the role to organize migratory flows and assist migrants in the labor market integration process. Often, it is considered that by government intervention, through contractual migration, the state and various other institutions may regulate migration. This logic underpinned for a while the major programs of bringing migrant workers despite the fact that it could not be regulated by these institutions. Italy is an example in this respect, some authors considering that at one time the state lost control of migration (Colombo and Sciortino, 2003).

The coherence of policies on migration is based on two premises. The first refers to the economic and social development of small and medium-income countries in a world being affected by a variety of political interactions and decisions. We refer here to the safety policy, development impact, development results. The second premise is a fundamental one underpinning policy coherence, namely that development policies interact with informal institutions (norms, practices, behaviors) and that coherent policies must recognize these institutions in order to achieve set objectives.

An example is migrant networks, integration and support, transnational organizations which can be powerful drivers of investment and trade, if migration policies encourage it accordingly. The purpose of these coherent policies should be the improvement of economic growth prospects and poverty reduction. But given that we have no coherent policy and concrete measures on migration we should ask ourselves: what will be the social and economic costs of incoherent policy in the future for Romania.

The causes of incoherent policies on migration are currently the following: inadequate communication between policy makers; inconsistencies in immigration policies related to certain tensions (the tension between allowing immigrants to obtain citizenship of the host countries, against the promotion of circular migration which restrains integration possibilities); we have to establish the role of parliaments and governments in generating coherent migration policies. For proper management of immigration policies first of all a good cooperation between the ministries of foreign affairs, development, employment and social affairs is necessary

The promotion of coherent policies and programs for migrants requires the involvement of the countries absorbing the migrants. Italy is increasingly becoming a multicultural country and thus the need to adopt laws and policies that openly

recognize this reality by adopting a position and taking measures appropriate to the reality of its immigrants becomes more stringent.

Eastern Partnership of the European Union was considered in this paper an instrument for effective migration policies both for destination countries and for the countries of origin for a good knowledge about the development and implementation of migration policies process.

## CONCLUSIONS

The overall conclusion is related to our country's position on the Eastern Partnership, namely to the need to provide a proper framework for enhancing interactions between all partners involved. The proposal for joint projects related to the topic of populations migration, the involvement of civil society in these regions and also a good and effective cooperation can lead to a better shared vision and to the identification of really important opportunities for Romania. As a country with a large share of immigrants in the European Union, Romania can make a series of proposals aimed at establishing a cooperation platform on migration based on migration policies that are required by the Romanian reality these days. The four migration policies proposed in this paper represent landmarks used to identify the problems of the migration phenomenon in Romania based on the effects produced in recent years by the growing number of Romanians left to work abroad. It is up to policy makers in our country to create in the future an institutional framework propitious for the application of such policies able to gradually reduce the negative effects created by the migration of Romanians.

The last of these four proposed policies, namely the policies for international cooperation on migration, can be included in the general register of the topic related to the European Union's Eastern Partnership. Policies for international cooperation on migration are proposed in order to determine the conclusion of treaties of association including extensive agreements and coordination on major issues regarding the policy and measures for the reduction of the negative effects of Romanian migration. In fact, this is intended to be the new initiative proposed by the Eastern European Neighbourhood Policy, an initiative of multilateral cooperation on various topics, including population migration.

An important objective in the development of migration policies in the European Union's Eastern Partnership should be the development of institutional capacities of those involved in the making decision process on the migration of population and here we refer both to the central level of migration policy elaboration and to the implementation of these policies in embassies and consulates according to European standards. The European Union's Eastern Partnership involves changes in the migration approach and of policies in the field.

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# ENHANCING ICT AND INNOVATION IN EU AND MOLDOVA: ACHIEVEMENTS AND IMPACT

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**Abstract:** For decades to come, the Information and Communication Technologies (ICT) will underpin the competitiveness of our economy, the efficiency of our public services and our quality of life. ICT sector accounted for a substantial part of EU GDP and of Moldova. But the question is what is the value added of ICT sector, an indicator that speaks about the performance of this industry. Today Europe represents 34% of the global information and communication technologies (ICT) market, and its value is growing by 4% per year. However, the value added produced by the EU's ICT sector amounts to only 23% of the total, because both Europe's market and research efforts are fragmented. As a result, Europe is lagging behind its global competitors in ICT research and in the production of innovative ICT-based products and services. As concerns the ICT sector in Republic of Moldova, the data are much more modest, meaning that are lessons to be learned and steps to be followed.

**Keywords:** Information and Communication Technologies, value added, labour productivity, effects, research, innovation.

## INTRODUCTION

The last two decades have shown that ICT is the key innovation enabler in almost any technology domain as well as changing the social behaviour of most of people in Europe. Today the world is confronted with profound and fast changes, in which ICT-related developments play a major role. For the last decade, the European Commission has stressed that its ICT strategy is of key importance to realize broader European policy goals. This was the case in the Lisbon Agenda, and is now the case in the Europe 2020 strategy. ICT is believed to be one of the main drivers behind the recovery of the European economy and for turning Europe into “a smart, sustainable and inclusive economy” (EC, COM(2010) 2020.).

## 1. EU ICT SECTOR – AT A GLANCE

European ICT sector Value Added (VA) amounted to € 470 billion in 2009. This represented a share of 4.0% of EU GDP, a share that has remained stable over the last few years. ICT Services contributed by far the largest share of ICT VA (90.8%, or € 432 billion in 2009), amounting to 3.7% of EU GDP, while ICT Manufacturing VA contributed 8.1% of ICT VA (€ 38 billion), amounting to 0.3% of GDP. (Stančík J., Desruelle P., 2012, p. 15)

As to analyze the share of ICT value added (VA) in GDP by ICT sub-sectors, by far the two largest ICT Services sub-sectors in the EU are *Telecommunications*, which generated a VA of € 180 billion in 2009 (1.5% of EU GDP) and *Computer programming, consultancy and related activities*, which generated a VA of € 166 billion in 2009 (1.4% of EU GDP). These two sub-sectors represented almost three quarters of the total VA generated by the ICT sector in 2009. ICT Trade activities generated VA of € 42 billion in 2009, or 0.4% of EU GDP. In 2009, the Value Added generated in ICT Trade services was more than the VA generated in ICT Manufacturing. From 2008 to 2009, Value Added generated by ICT Services decreased by € 19 billion (a 4% decrease).

### 1.1 . ICT Sector Employment

Over 6.1 million people worked in the EU ICT sector, representing 2.7% of employment in the EU. ICT employment is highly concentrated in ICT services: 5.1 million people worked in ICT Services (85%) whereas 0.9 million worked in ICT Manufacturing (15%) (Stančík J., Desruelle P., 2012, p. 17). ICT sector employment overall decreased by 3% - in real terms, 183 000 people - from 2008 to 2009. This was made up of 119 000 people in Manufacturing (11%) and 64 000 in Services (only 1.2%, in spite of the economic crisis). The decrease of employment in ICT Manufacturing was therefore higher in both relative and absolute terms than in ICT Services.

### 1.2. ICT Sector Labour Productivity

In 2009, labour productivity per person in ICT Manufacturing in the EU was € 41 170 while in ICT services it was € 84 170. The highest labour productivity was achieved in *Telecommunications*, where it was more than € 170 000.

Between 2008 and 2009, ICT labour productivity in the EU contracted by 4%. This decrease was more intense in ICT Manufacturing (on average 21%) than in Services (3%). The biggest drop was recorded in *Manufacture of magnetic and optical media*, almost 83%, while the biggest increase was in *Software publishing*, more than 35%. (EC, 2012)

### ***1.3. ICT Sector R&D Personnel***

ICT R&D personnel (including both researchers and R&D supporting staff) made up 4.7% of total ICT Employment in the EU. In 2009, 10% of employees in the EU ICT Manufacturing sub-sectors were R&D personnel, whereas it was only 3.7% in ICT Services. The ICT sub-sectors with the highest share of R&D personnel were *Manufacture of communication equipment (NACE 263)* and *Software publishing* (14.7% and 11.5%, respectively). (Stančík J., Desruelle P., 2012, p. 19) In contrast, the ICT sub-sectors with the lowest shares of R&D personnel were *ICT Trade industries, Data processing, hosting and related activities; web portals (NACE 631)* and *Repair of computers and communication equipment (NACE 951)* – each employing less than 2%. There were more than 280 000 R&D employees working in the EU ICT sector in 2009, only 0.02% less than in 2008. This apparent stability is, however, the result of a 13% decrease in ICT Manufacturing R&D employment (from 107 000 in 2008 to 93 000 in 2009) being partly offset by an 8% increase in ICT Services employment (from 177 000 in 2008 to 192 000 in 2009). (ProInno Europe (2011). The drop in ICT Manufacturing personnel occurred mainly in *Manufacture of magnetic and optical media (NACE 268)* sub-sector, while the largest increase in ICT Services personnel occurred in *Software publishing (NACE 5820)*. Similar trends are observed in the numbers of ICT researchers.

### ***1.4. ICT Sector Business Expenditures***

The ICT sector is one of the most R&D-intensive sectors in the EU economy. Analyzing ICT Sector Business Expenditures in R&D across ICT sub-sectors provides a quite different perspective to the one resulting from a comparison of Value Added or employment across the sub-sectors, or from a look at recent evolution. In 2009, ICT expenditures amounted to € 25 billion, 7.4% less than it was in 2008 (€ 27 billion). This amount was almost equally divided between Manufacturing (€ 11.3 billion) and Services (€ 13.7 billion).

In 2009, more than half ICT Manufacturing expenditures (56%) was invested in *Manufacture of communication equipment (NACE 263)* (€ 6.3 billion, or 4.3% of total ICT expenditures in the EU economy), and 30% in *Manufacture of electronic components and boards* (€ 3.4 billion). More than half ICT Services expenditures (55%) was invested in *Computer programming, consultancy and related activities* (€ 7.5 billion), and 31% in *Telecommunications* (€ 4.3 billion).

If to sum up upon the EU ICT sector, we can state as follows:

- The Computer programming, consultancy and related activities (NACE 62) sub-sector consistently scored highest in all four indicators, with shares between 30% to 46%.
- Manufacturing of communication equipment (NACE 263) was a highly R&D-intensive sub-sector. While it produced only 4% of the total ICT VA in 2009 and employed only 5% of the total ICT workers, it invested 25% of the total ICT business expenditures for R&D and employed 16% of ICT R&D personnel. Similar characteristics can be seen also in Manufacture of electronic components and boards (NACE 261).
- A different situation is observed in the Telecommunications (NACE 61) sub-sector. On the one hand, this sub-sector produced 38% of the total EU ICT VA. On the other hand, it represented only half this share in terms of ICT sector employment (17%), ICT expenditures (17%) and ICT R&D personnel (15%). ICT trade industries behaved similarly with 9% of the total ICT Value Added, and only 2% of the total ICT expenditures.

The achievements of EU in the field of ICT are quite impressive, when comparing ICT data with Republic of Moldova's ICT data. When comparing performance of the EU and other countries' ICT sectors (such as US, Japan or other leading countries in this field), EU clearly lags behind all. (see table 1) In the picture presented in the above table, the data registered by Moldova are comparable with those registered by the selected countries. The ICT sector in Moldova has been one of the most productive and fastest growing industries over the past several years. The contribution of ICT to the country's GDP was approximately 8.9 percent for 2010 (compared to 7.5 percent for 2004), which amounts to \$637 million, putting the sector on par with agriculture.

**Table 1. ICT sector performance in selected countries, 2010**

	<b>Size of ICT sector in the economy (ICT VA/GDP)</b>	<b>ICT expenditures/GDP</b>	<b>ICT sector R&amp;D intensity (ICT expend./ICT VA)</b>
<b>EU</b>	4,8%	0,30%	6,2%
<b>US</b>	6,4%	0,72%	11,2%
<b>Japan</b>	6,8%	0,87%	12,8%
<b>Korea</b>	7,9%	1,30%	16,5%
<b>Taiwan</b>	10,6%	1,31%	12,3%
<b>Moldova*</b>	8,9%	1,19%	n/a

\*for Republic of Moldova, ICT value added is not assessed, that is why for the present analysis total ICT value is used

Source: Elaborated by the author on the base Eurostat, ITU and Republic of Moldova's National Bureau of Statistics

ICT is an important employer in the country with the number of people employed at 20,500, a number that is expected to grow to 40,000 in a few years. It is also one of the highest paying industries, as jobs in ICT pay on par with those in the financial sector, which have historically been among the best paying jobs in Moldova. (MTIC, 2012)

The Moldovan ICT market is at an early stage of development. It is among the most dynamically developing sectors. Double-digit growth was recorded in the number of Moldovan Internet connections in 2009 and 2010, with increased provider efforts to cover the market as fast as possible. In terms of offshore/nearshore activities, Moldova became one of the preferred outsourcing locations across the South Eastern Europe region in the past years. This was heavily reflected in the volume of exports of services, which has been growing over tenfold since 2004. Most of the projects are commissioned from the U.K. and the US, followed by France, Germany, and Romania (Moldovan Association of private ICT Companies, 2010). As for the telecommunications sector, Moldova has one of the highest Internet connection speeds in the world, especially in Chisinau, where most offshore/nearshore companies are located. Competition in this market is becoming fierce; investment in network infrastructure can therefore be expected to grow rapidly.

- a) Increase Moldova's ICT sector position within the global value chain: exports of ICT products and services to increase from EUR 100 million to EUR 180 million over the 2011-2014 period;
- b) Upgrade the ICT infrastructure through greater private involvement;
- c) Strengthen IT skills through education to ensure adequate resources for the ICT sector development.

Although communications is one of the largest by output in the ICT sector, which is made up of communications, hardware, and IT services, it is driven entirely by domestic demand and technological progress. Therefore, its role is to act as an enabler of the IT subsector and the entire economy rather than as a productive industry. Additionally, hardware in Moldova consists mostly of trade of imported equipment for domestic consumption thus having little scale for large and fast growth; this leaves software development as the productive subsector with enormous growth potential.

## **2. EFFECTS OF ICT ON THE ECONOMY**

The European knowledge society is entering a new phase of development where ICT can provide the key basic infrastructures for all vital social and economic processes and become the most influential key technology in delivering innovations across all industries.

Even if the share of ICT sector in GDP is relative low in the selected countries (see table 1), ICTs are much more important than that figure suggests,

playing a key role in everything from promoting innovation throughout the economy to meeting the demographic challenge of an aging society. ICT is among the leading sectors in Europe that affects economic growth across the economy in several ways:

1. The most important benefits of ICT arise from its effective use. ICT investments help to raise labour productivity;
3. The use of ICT throughout the value chain enables firms to increase their overall efficiency and makes them more competitive;
4. ICT lead to scientific and technological development in diverse areas as medicine, physics, education, security, energy and transport, as well as making Europe's large public sector more efficient;
5. Tackling social challenges and improving quality of life while meeting the challenge of an ageing society etc.

However, as the EU currently spends less than several key competitors on ICT Research and Innovation (R&I), there is considerable opportunity for Europe to step up and raise its game. Moreover, with EU member states carrying out their own R&I programmes, there is a lot of duplication. In today's globalized world, Europe cannot afford this duplication. No single EU country or organization can now afford to try and build all the know-how and skills to master these increasingly complex technologies.

The maturing and wide use of ICTs in the next stage of development implies that ICTs will become the key infrastructure for the future European Knowledge Society. The dominant policy perspective towards ICT is to see ICT as an instrument, as an enabler of desirable outcomes. In our view, such an instrumental approach is too simplified. ICT is not only a solution to existing problems, but also a disruptive force in itself, having recent decades, ICT has in many ways been a driver of social and economic change and it will remain such a transformative force in the coming decades (see table 2).

ICTs do not provide straightforward solutions to specific social, economic or individual problems. ICTs evolve in a complex non-linear way, and in the process they generate unintended consequences and rebound effects. Instead of simply providing solutions to existing problems or addressing given needs, the advancement of ICT consists of both solving and creating problems at the same time.

**Table 2. Positive and negative ICT impact (Examples)**

Positive ICT Impact	Negative ICT Impact
Better and safer products, e.g. through the use of embedded systems	Possible destabilization of the economy and society by the power of ICT, such as the financial industry (via ICT-based structured products, high volumes, algorithmic [automated] trading) (Brooke, 2011)
Job creation through ICT-based innovation	Threats to privacy and human rights via the use of ICT (Sorkin, 2009, p.27)
Improvement of societal processes, leading to better and safer lives of the citizens	Instability and lower availability of critical infrastructures, such as the power grid, the telecom infrastructure, rescue support, etc. due to unreliable ICT components and emerging properties of complex System of Systems
Improved applications that are more attuned to human needs, practices and contexts	Substantial danger from cybercrime, cyberterrorism and cyber war through attacks via and to ICT systems
Better health management tools, such as monitoring and prevention, early diagnosis, better cures etc.	Possible threats to personal health from the permanent ICT usage (long term PC/Tablet usage, radiation etc.)
More efficient education system with more information availability	Loss of social skills and personal relationships because of the extensive use of electronic social networks (Turkle, 2001)
Advanced e-systems for more citizen engagement, such as e-government, e-voting	Ethical issues
User-centric applications for social contacts and personal intercommunication	

*Source:* Elaborated by the author according to European Commission, (2013), Orientations for EU ICT R&D & Innovation beyond 2013: 10 Key Recommendations, Vision and Needs, Impacts and Instruments, ISBN: 978-92-79-21871-2.

An example of the transformative capability of ICTs is the user empowerment resulting from the mostly unforeseen explosive uptake of social computing. In recent years, user empowerment has had an important impact on technical, economic and social innovation. This is illustrated, for example, by an explosion of new software developments, user interfaces and (open) standards, but also by growing patient empowerment in the health sector, and emerging new business models based on the extraction of value from networks of users. These shifts embody a potentially radical transformation in the ways value is created. They have made it clear that we need to rethink traditional user/producer relations, business models and production and innovation processes in the future Knowledge Society.

The transformative force of ICTs can also be seen in the ICT industry itself. A large majority of the now highly influential Internet platforms were launched after 2002. These include MySpace (2003), Skype (2003), YouTube (2005), Google Maps (2005) and Street View (2007), Twitter (2006), and, for example, Spotify (2008). Many innovative startups have grasped the opportunities emerging from the convergence between the ICT sector, the telecom sector and the media sector, building new businesses on rapidly changing consumer behaviour. As a result, the models that we use to forecast and predict future impacts often become outdated faster than we can formulate them.

In the emerging context, we cannot simply assume that technical developments in ICTs lead to straightforward socio-economic development. ICT use can both increase and decrease micro- and macro-level productivity (USAID, 2010). It can lead to increased energy consumption and it can reduce it. It can provide better access to knowledge, and at the same time increase information overload and information obesity. The instrumental view on ICT, therefore, is not only inadequate, but also often misleading. Instrumental, impact-oriented, and evidence-based policies need to be reconsidered in this new context. We need to be less predictive about the future and more open to it. We need new impact indicators which measure, for instance, both intended and unintended consequences. We also need a framework that allows us to describe what growth or progress means in this emerging context.

## CONCLUSIONS

ICTs are not only tools that make economies more productive and generate more outputs from given inputs, their pervasive social and economic use requires rethinking the concepts of productivity, growth and development as well as the indicators to measure them. A shift towards societal challenges is needed. Nevertheless, both for EU and Moldova ICT sector is stated as a strategic one, a sector that will be the main driver behind Moldova's economic

growth, augmenting labor productivity and enhancing international competitiveness through the wider use of the ICT products and services across economy and society. Because of its high potential for development we have selected IT as the subsector of focus for further development. It will be driven by the enabling factors of rapidly increased mobile and widespread broadband penetration and the supporting factors of an effective regulatory framework and a skilled and competitive workforce. To facilitate growth in the sector, policy-level needs include implementing an efficient and transparent government procurement system, and improvement in the fiscal environment for the ICT sector. As well, further investments in strategic actions such as education and R&D are needed to actively stimulate sustainable ICT growth in the country. To achieve an effective and transparent dialogue with the government, a cohesive and focused ICT sector will have to ensure that changes introduced at the government level are matched by the desired response from the ICT sector companies.

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This conference proceedings comprises the research papers of the conference *The EU as a model of soft power in the Eastern neighbourhood*, hosted by the Centre for European Studies within Alexandru Ioan Cuza University of Iasi. The event was supported by the European Commission through the Jean Monnet Life Long Learning Programme – Key Activity 1 (Information and Research Activities) as a part of the research project “The EU as regional player. Cooperation and integration in Eastern neighbourhood (EURINT)”. The conference brought together over 120 participants from Romania and other European Union states, as well as from Ukraine and Republic of Moldova, professors, researchers, post-doc fellows, master and PhD candidates.

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