

Gabriela Carmen PASCARIU • Ramona ȚIGĂNAȘU •
Cristian ÎNCALȚĂRĂU • Loredana Maria SIMIONOV
(editors)

REGIONAL DEVELOPMENT AND INTEGRATION

New challenges for the EU

EURINT 2015

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FOREWORD

The present edition of the Jean Monnet International Conference entitled “Regional development and integration. New challenges for the EU”, organised under the auspices of the events conducted and promoted by the Centre for European Studies every year, on the occasion of Europe Day, exposes to the general public and not only, a number of issues that the European economies are facing on the crisis background. During the event, we have enjoyed the presence of our colleagues (researchers, professors, specialists in European Studies) from the main universities in Romania, as well as from France, Belgium, Bosnia-Herzegovina, Republic of Moldova, Ukraine and Turkey.

In setting up the conference theme of “Regional development and integration. New challenges for the EU”, the organizers noted the major changes that have occurred on the context of the European debt crisis. Contributors to the conference were asked to look at the past and present, as well as towards the future of the European construction and focus on themes likely to influence change and re-shape regional development and integration agendas.

From an interdisciplinary perspective, combining insights from economics, politics, international relations and development studies, the articles in this volume examine the role played by the European Union as regional and global actor, the achievements and prospects of European economic governance, the economy and regional development in the European Union, as well as the EU as a model for regional integration.

We hope that this new issue of EURINT Proceedings will prove an efficient disseminator of new knowledge in European Studies and will serve as a doorway for young researchers within this important field.

We would like to thank all conference participants and we hope they will also be present to future events organised by the Centre for European Studies.

The publication of this volume was possible with the support of the European Commission, through the project Jean Monnet Chair - Ad Personam “EU sustainable development, regional cohesion, and European policies”.

Editors

A BIBLIOMETRIC ANALYSIS ON EU AND GLOBAL RESEARCH ON THE ENVIRONMENTAL IMPACT OF CITIES

Constantin-Marius APOSTOAI^{*}, Costica MIHAI^{**}, Alexandru MAXIM^{***}

Abstract: *Currently, more than half of the world's population is living in urban settlements and by 2030 this proportion will rise to two thirds. The process of urbanization is even more pronounced in developing countries (including in some EU countries). Apart from the cultural, social, economic or political changes that cities foster in their expansion process, urbanization has a major impact on the present and future state of the environment. The complex environmental impact of cities requires a cross-cutting and interdisciplinary research approach and an in-depth assessment. A stepping stone in such an investigative venture is a bibliometric analysis of existing literature on the topic of "environmental impact of cities". This would serve in identifying gaps, understanding the focus and gauging the level of knowledge on the subject. Moreover, the study seeks to raise awareness regarding the limited body of literature originated in the EU member states (most works addressing the topic originate in America and Asia).*

Keywords: bibliometrics; environment; city; urbanization; Scopus

Introduction

According to the Department of Economic and Social Affairs of the United Nations Secretariat (a vital interface between global policies in the economic, social and environmental spheres and national action), more people live nowadays in urban areas (or *cities*) than in rural settlements (the proportion of people living in urban areas exceeding 54 per cent of the world's population in 2014). The same source (United Nations, 2014) states that while in 1950, 30% of the world's population was living in urban settlements, one hundred years later more than two thirds of the world's population is expected to live in cities of various dimensions.

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Meanwhile, important changes regarding the world's population will occur in terms of spatial distribution and size (most of them will take place in Asia and Africa).

The rural-to-urban migration is often associated with significant changes of economic and social nature and is fostered by peoples' beliefs that life in the city brings enhanced opportunities for literacy, education, better jobs or higher incomes as well as cultural and political involvement, high quality healthcare and greater access to social services. Moreover, many consider the city as a vector for development and poverty reduction. Nevertheless, the terms 'city' or 'urban area' are not homogenous, as most of the world's urban population are scattered in settlements that range from small towns and villages to 'mega-cities' whose populations are larger than many countries. Therefore, one can speak of a process of urbanization that can be sometimes rapid and inadequately managed, affecting the overall sustainable development. Apart from the cultural, social, economic or political 'mutations' that a process of chaotic urbanization can foster (and that can nonetheless be addressed through proper policies), the ones of environmental nature can sometimes be immeasurable and irreversible, affecting future generations. Some of the harmful outputs or outcomes where the process of urbanization can have a significant contribution can range from pollution and degradation to unsustainable production and consumption (of water, food, housing, clothing, heat, energy, consumer goods etc.).

The need for sustainable cities was recently stressed in the Rio+20 United Nations Conference on Sustainable Development, where it was considered of 'great urgency' for the United Nations development agenda (United Nations, 2012). The *status-quo* will soon be evaluated with the occasion of the 3rd United Nations Conference on Human Settlements (Habitat III), planned for 2016. Then, it is expected that the participating world leaders will review the global urban agenda proposing a new model of urban development which will better integrate all facets of sustainable development (economic development, social development and environmental protection).

Until then, it is up to the academics to raise awareness on the impact that cities, in their process of expansion, have on the present and future state of the environment (a need that was also identified and addressed by the researchers from the Integrated Centre for Studies in Environmental Science for the Northeast Region – CERNESIM). The complex environmental impact of cities requires a cross-cutting and interdisciplinary research approach and an in-depth assessment. A stepping stone in such an investigative venture is the current bibliometric analysis of the existing body of literature on the topic of "environmental impact of cities". The aim of such an endeavour is to identify the gaps, understand the focus and gauge the level of knowledge on the subject (assessing thus the importance of the subject in the academic environment). We hypothesize that there is a limited body of literature originating in the EU member states as compared to the performance of other countries/regions in the world (most works being produced in America and Asia).

To summarize, in our research, we have performed a bibliometric analysis to explore/estimate the overall level of knowledge that has been produced and

highlight current trends in the research developed on the topic of “environmental impact of cities” over the past two and a half decades. The paper is organized as follows: an overview of some theoretical underpinnings to better grasp the guideline and boundaries of our research, followed by considerations on the data and method employed in this research, the analysis and interpretation of the results and some conclusions as well as suggestions for future investigations.

1. Theoretical underpinnings

Whether they take the form of small towns (having slightly above 1 thousand people) or of ‘mega-metropolises’ (with more than 10 million citizens), cities are thought to be the cradle where the human ‘creative flame’ burns more brightly (well noted by Hall, 1998). It is in cities where drivers of economic, commercial, scientific, political, social, cultural or educational nature push forward the level of development and fuel the rural-to-urban migration.

Table 1. Various definitions of urban areas

Country	Definition of “urban”
Argentina	Populated centers with 2,000 inhabitants or more
Austria	Communes of more than 5,000 inhabitants
Canada	Places of 1,000 or more*
China	Cities designated by the State Council and other places with density of 1,500 or more per sq. km. *
Czech Republic	Localities with 2,000 or more inhabitants
India	Specified towns with governments and places with 5,000 or more and at least three-fourths of the male labor force not in agriculture*
Japan	Cities (shi) with 50,000 or more*
Mexico	Localities of 2,500 or more
New Zealand	Cities, towns, etc. with 1,000 or more
Norway	Localities of 200 or more
Peru	Populated centers with 100 or more dwellings
Romania	Cities, municipalities and other towns (as classified by administrative authorities)
Senegal	Agglomerations of 10,000 or more
United States	Places of 2,500 or more, urbanized areas of 50,000 or more*

Note: * in addition, there are other urban characteristics taken into consideration

Source: United Nations (2007)

Nevertheless, as mentioned earlier and as shown in the literature, the term ‘city’ or ‘urban’ is not a homogenous one. When referring to a city, usually glimpses of New York, Mexico City or London comes into one’s mind but these are merely the giants among urban settlements. In many countries, small towns and villages are home to a significant proportion of urban dwellers. Take, for example, the various interpretations of what ‘urban’ seems to be from different country perspectives (considering population size, population density and other urban



characteristics) and depicted by the United Nations Statistics Division in 2007 (see Table 1).

Urbanization is one of Earth's most powerful and visible anthropogenic forces, according to Dawson *et al.* (2009). This process refers to the general increase in the population of cities through migration from rural settlements, resulting in a tilt of the scale from a rural majority to an urban one. Nevertheless, urbanization is not a homogeneous process. If in the developed countries urbanization was often accompanied by an increase in welfare, this was not the case of developing countries. In the developing world, urbanization has experienced the fastest rate of growth concentrating in their cities 66% of the world's estimated 3 billion urban citizens. In 2007 there were 400 cities in the world with a recorded population of over 1 million; in 2015 the number reached 564, while in the immediate future, virtually all of the world's urban population growth will take place in developing countries (United Nations, 2007).

Although it is undisputed that urbanization has played, at least until now, an important role in the development and modernization of societies (be they developed or less developed), providing opportunities to improve one's quality of life, we cannot ignore the numerous environmental problems it causes, ranging from a local scale to a global one. The paradox is that although cities occupy only 4% of the Earth's land, they are accountable for the majority of environmental issues that we are dealing with today. As valuable and limited inputs go into the cities (in the form of natural resources, energy, water, wood, land etc.), long-lasting harmful outputs come out from them (in the form of wastes in solid, liquid and gaseous forms) jeopardizing the quality of life for future generations. We are aware of the fact that a city's environment cannot be isolated from its surroundings, but when today's decisions affect tomorrow's quality of life, be that ours or of our children, we cannot stand idle. As Martine (1996) argues, the extreme possibility, to 'stifle' urbanization, is not the right solution either: "...Nevertheless, it is fundamental to recognize that curbing urban growth is not the solution to either environmental or urban problems". Therefore, attention must be raised and all must be aware of the consequences of their decisions on sustainable development itself. We must better comprehend the role that our city plays in the surrounding environment. Non-marketable amenities such as green spaces, clean air, fresh water or temperate climate should not be the luxury of wealthier individuals, but a common good available intra- and intergenerationally regardless of one's wealth.

There are some papers that deal with the issue of the environmental effects of cities and/or urbanization but we doubt that these are enough to raise people's attention. Some of these papers deal with: land use patterns and their impact on the environment (Entwisle and Stern, 2005; Cui and Shi, 2012); the role of urbanization in creating air and water pollution (Cincotta and Engelman, 2000; Zheng *et al.*, 2011) and decreasing water supply (Liu and Diamond, 2005; Shao *et al.*, 2006); the dependence on nuclear plants, considered ecologically unsustainable (Saveanu and Ignat, 2014); local climate alteration and increased energy demands (Zhou *et al.*, 2004; González *et al.*, 2005); a major reduction in natural vegetation production and carbon storage/sequestration (Fang *et al.*, 2003; Yuan, 2008); as



well as many other studies that link urbanization and the environment (such as Arizpe *et al.*, 1994; Curran *et al.*, 2002; Dasgupta *et al.*, 2002). Other studies argue that the positives effects of urban expansion exceed any environmental negative outcomes (like White, 1996; Williamson, 1998; Bloom *et al.*, 2008), but their number is limited.

Within this context, we join the other observers that raise concerns about the impact of cities and urban growth on the environment (such as Montgomery, 1988; Foster, 2001; Kante, 2004; Newman, 2006; Chen, 2007; Bloom *et al.*, 2008; Li and Yao, 2009; White *et al.*, 2009; Martínez-Zarzoso and Maruotti, 2011; Zheng and Khan, 2013; Kahn and Walsh, 2014). To raise attention on the limited importance that is given to the topic of “environmental impact of cities”, within Europe, in academic circles we hereby present the results of a bibliometric analysis of the existing body of literature on the subject. To our knowledge, no such study has yet been performed in the form of a bibliometric analysis of EU and global research on the environmental impact of cities. We hope to contribute to the existing literature by providing a milestone on the current status of knowledge on the topic of “environmental impact of cities”.

2. Methodology

The bibliometric analysis (sometimes called ‘scientometrics’) was first introduced by Pritchard in 1969 in a study where he applied mathematical and statistical methods to books and other media of communication (Pritchard, 1969). Essentially, bibliometrics is the application of quantitative analysis and statistics to publications such as journal articles and their accompanying citation counts (Thomson Reuters, 2008, p. 3). According to Novais *et al.* (2012), while scientometrics is regarded as the measurement of both scientific and technical research activities, bibliometrics is considered as its subcategory, directing its attention towards the quantitative study of scientific publications for statistical purposes. Thus bibliometric methods serve the purposes of description, evaluation and scientific monitoring.

Before using the data provided by vast databases, bibliometrics had been the little known domain of librarians, sociologists and historians of science (Russell and Rousseau, 2002, p. 4). Nowadays, bibliometrics has its own journal (‘Scientometrics’) and its own international professional society (International Society for Scientometrics and Informetrics). According to Small (2003), bibliometrics is currently used to assess research performance and trends by investigating various publication characteristics, such as authorship, sources, subjects, geographical origins and number of citations.

We performed our bibliometric analysis by retrieving publication data from the Scopus database (one of the two large academic databases, along with Web of Science). We consider Scopus to best meet the needs of the current paper because, firstly, it considers all the research materials, irrespective of an eventual change of their ISI status (that can be associated with their indexation in Web of Science) and



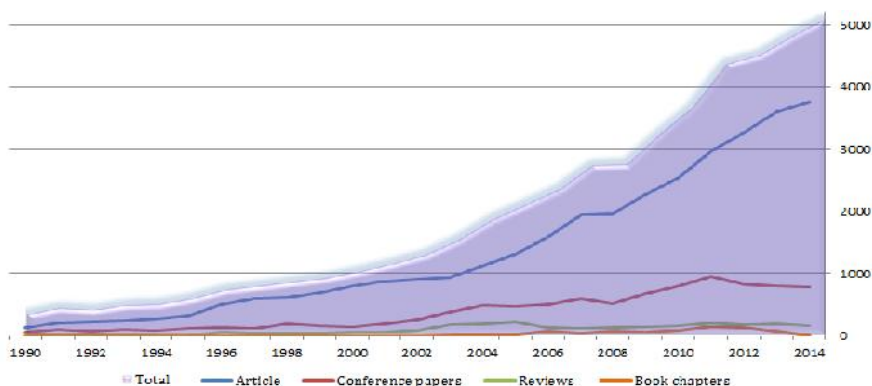
secondly, Scopus tends to be less restrictive regarding the accessibility of the publications, offering a more consistent pool of research materials.

In the academic search engine, we used the field “TITLE-ABS-KEY”, this retrieving the results referring to the publication title, abstract and keyword fields. When interrogating the database, we used the following query: TITLE-ABS-KEY (“urban*” OR “city” OR “cities”) AND TITLE-ABS-KEY (“effect\$” OR “impact\$”) AND TITLE-ABS-KEY (“environment*”) – thus measuring the frequency of appearance of these particular concepts. By using the asterisk (*) we allowed the search engine to look for concepts that contained the root specified plus any group of characters, including no character (for example, with “urban*” the program searched for: urban, urbanisation and urbanization, urbanize, urbanities etc.). Because there were few documents before 1990, we limited our time span from 1990 to 2014 (the most recent completed publication year at the time of writing). We accounted also for the singular as well as for the plural form of the categories (e.g. ‘city’ and ‘cities’, ‘effect’ and ‘effects’, ‘impact’ and ‘impacts’) by using the dollar sign (\$) – this represents zero or one character.

3. Results and discussions

At the time of data collection, the results of the query that meet the selection criteria reveal a total of 48,642 research materials within the 1990-2014 period, suggesting that there is a certain interest in performing research that deals with links between ‘cities’, ‘effect/impact’ and the ‘environment’. Moreover, as the indexation process is an ongoing one, the overall number of research materials for the 1990-2014 period is likely to increase. From the distribution analysis, 16 types of documents were found. The most-frequently used document type was the article (33,709) which comprised 69.3% of the total publications, followed by conference papers (with a number of 9,542 papers; a share of 19.6% of the total publications), reviews (2,504 reviews; 5.1%) and book chapters (760 chapters; 1.6%). The remaining type of publications show less significance and refer to conference reviews, press articles, books, notes, surveys, letters, reports and others (see Figure 1).

Figure 1. Evolution of the type of research outcome

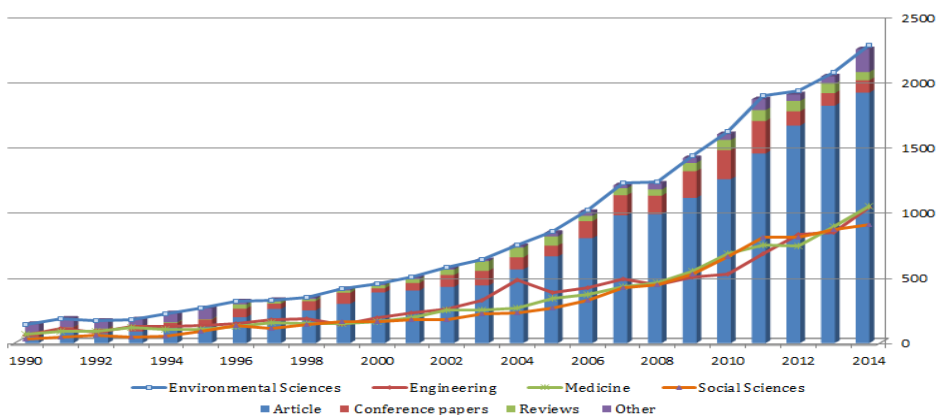


Source: Analysis based on data from Elsevier B.V. (2015)

Regarding the language of the research materials, English was by far the dominant language in the research performed (with 45,001 results), followed by Chinese (1,380), Spanish (546), French (517) and Portuguese (370).

As expected, Environmental Sciences was the most popular subject area with a total of 21,252 research materials (and a share of the total publications of 43.7%) followed by Engineering (9,113 research materials; 18.7%), Medicine (8,702 research materials; 17.9%) and Social Sciences (8,033 research materials; 16.5%). From a total of 148 research materials produced in 1990 to 2,295 research materials in 2014, Environmental Sciences has held primacy all throughout the study period, and was not exceeded by other study fields (see Figure 2). Within the results referring to the Environmental Sciences subject area, articles are by far the dominant type of research outcome (researchers find more convenient to publicize their research results in articles) – the majority of them being written in English.

Figure 2. Evolution of the research outcomes on the top four subject categories



Source: Analysis based on data from Elsevier B.V. (2015)

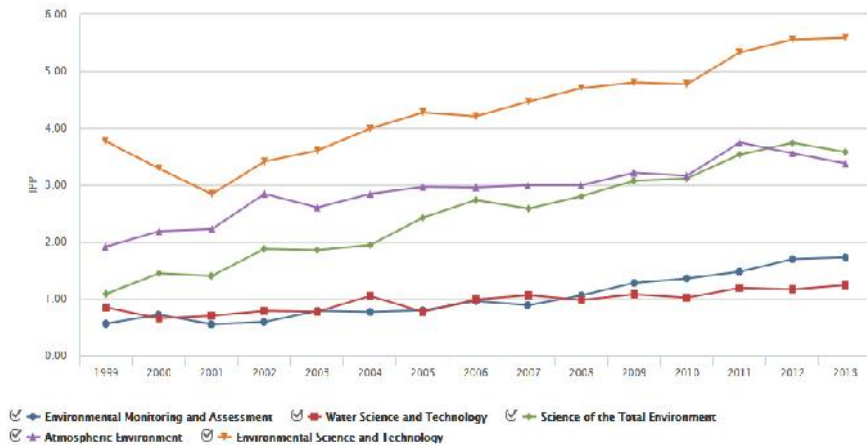
Scopus also revealed the most active journals producing research materials on the topic of “environmental impact of cities”. The most productive ten journals based on the total number of publications were: *Science of the Total Environment* (with 967 publications; representing 1.99% of the total publications), *Atmospheric Environment* (831; 1.71%), *Environmental Monitoring and Assessment* (722; 1.48%), *Water Science and Technology* (566; 1.16%), *Environmental Science and Technology* (473; 0.97%), *Landscape and Urban Planning* (393; 0.81%), *Environmental Health Perspectives* (386; 0.79%), *Advanced Materials Research* (375; 0.77%), *Environmental Pollution* (348; 0.72%) and *Wit Transactions on Ecology and the Environment* (299; 0.61%). Among these, only three journals revealed an IPP (Impact per Publication by year) greater than 1.00 over the entire analysed period (see Figure 3): *Environmental Science and Technology* (with an average IPP in 2013 of 5.596), *Atmospheric Environment* (IPP of 3.380) and *Science of the Total Environment* (IPP of 3.582). As for the total number of citations received by a journal in each year, *Environmental Science and Technology* was by far the dominant one (with a total of 113,370 citations in 2014), compared



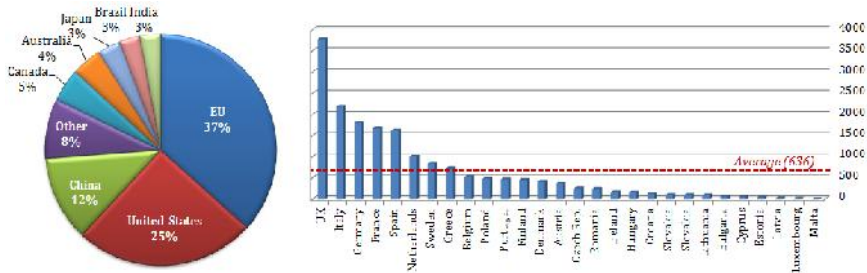
to Atmospheric Environment (with 40,175 citations) and Science of the Total Environment (with 39,166 citations) in 2nd and 3rd place respectively. The same journals occupy the top three positions in the ranking based on normalized impact per paper by year (NIP): Environmental Science and Technology with an average NIP for 2013 of 2.049, Science of the Total Environment with a NIP of 1.730 and Atmospheric Environment with a NIP of 1.599.

The total number of 48,642 research materials published from 1990 to 2014, covered 160 countries, of which 12,316 (25.32%) were published in USA, 5,768 (11.86%) were published in China, 3,774 (7.76%) in the United Kingdom, 2,226 (4.58%) in Canada and the remaining 31,333 research materials (totalling 64.4%) were published in other countries. With only 246 research materials on the topic (0.51%), Romania ranked 37th in the total number of publications. If we were to compare EU's total productivity in terms of research materials produced during 1990 and 2014, it ranks 1st, surpassing the United States, China, Canada, Australia, Japan, Brazil or India (see Figure 4). Nevertheless, with an average of 636 research materials per country, the EU falls far behind. Only eight states (UK, Italy, Germany, France, Spain, Netherlands, Sweden and Greece) are above the average productivity of the EU, compared to the remaining twenty below it. Thus, we can notice a lack of research productivity within EU on the analysed topic.

Figure 3. IPP for the most performant five journals



Source: Analysis based on data from Elsevier B.V. (2015)

Figure 4. The most productive countries in the world and within EU

Source: Analysis based on data from Elsevier B.V. (2015)

The United States lead the rankings based on the most productive authors – referring here to the first authored and corresponding authored research materials – (the most productive authors being Schwartz, J. with 91 research materials and Perera, F.P. with a number of 68 research materials) followed by the Netherlands (Brunekreef, B. – 49, Hoek, G. – 49) and Spain (Querol, X. – 48, Sunyer, J. – 47). Italy and UK followed behind these countries and ranked the 4th and 5th position in terms of all indicators (Forastiere, F. – 56 and Katsouyanni, K. – 49 respectively). China and Germany closed the ranking of top 7 places (with Yang, Z. – 46 and Heinrich, J. – 44 respectively). As for the affiliation of the research materials, the top five most productive institutions include the following: Chinese Academy of Sciences (with 510 research materials), United States Environmental Protection Agency (371), Harvard School of Public Health (309), Universidade de Sao Paulo – USP (305) and Peking University (289). Only 99 institutions produced at least 100 research materials on the topic.

4. Conclusions and future directions

Within this study we presented the results of a bibliometric analysis as a picture of the existing body of literature on the topic of “environmental impact of cities”. Thus we tried to grasp the level of knowledge that has been produced in the research developed on the above mentioned topic over the past two and a half decades. Some significant points on the worldwide research trends were obtained covering the period from 1990 to 2014. In total, 16 document types were found (articles dominated the portfolio with a share of 69.3% of the total publications) totalling 48,642 research materials. English was the dominant language on environmental impact of cities research (leaving far behind Chinese or some European languages such as Spanish or French). The results also showed that Environmental Sciences was the most popular subject area and kept its supremacy, over the other fields, all through the study period. Another interesting fact was that three main journals were identified as being the most productive, differentiating themselves from the other publications in terms of total number of publications, IPP, NIP and total number of citations received: Environmental Science and Technology, Science of the Total Environment and Atmospheric Environment.



USA was the most productive country in terms of research materials obtained over the analysed period. EU exceeded USA's productivity, but only after considering the research materials obtained by all 28 countries. Individually, the first EU country in the productivity hierarchy is the United Kingdom and it ranks in 3rd place after the United States and China followed shortly after by Italy. Romania ranked only 37th by the total number of publications. Professors and researchers from the United States, Netherlands and Spain are in front of the ranking while the first five most productive institutions are located in USA, China and Brazil.

As one can see from the remarks made above, the topic of "environmental impact of cities" is beginning to be more attractive for the academic circles as it appears in increasingly more materials. The results confirm our hypothesis that there is a limited body of literature originating in the EU member states as compared to the performance of other countries/regions in the world. Although no one can deny the leading positioning of USA and China research on the topic, EU comes strong from behind (more as a whole, then individually). When surveying the literature, we noticed that the topic regarding the quality of the environment and its development is becoming increasingly debated (in EU and worldwide). We believe that more focus is needed on researching the less explored problem of the impact that cities have on it, so we could adopt a more proactive/preventive approach rather than a corrective one *vis-à-vis* environmental damages that urbanization produces.

The result of this research opens for us new directions to investigate. Given the importance of the articles as vectors for disseminating the research results, we intend to fine-tune our bibliometric analysis by considering exclusively this document type. Also, as English was the dominant language within the research results and Environmental Sciences the most popular subject area, we intend to focus in our next study on articles that have these attributes. Subsequently, in the future, we intend to direct our research towards an in-depth assessment of the environment in its relation with the city (by employing a cross-cutting and interdisciplinary research approach). Specifically, our focus will gear towards the 'smart environment', as a component of the 'smart city'.

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7 YEARS OF EUROPEAN FUNDING IN ROMANIA - BETWEEN SUCCESS AND FAILURE

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Abstract: *This paper aims to achieve an overall picture of the absorption rate of European funds in Romania for the 2007-2013 programming period and to propose a series of recommendations on the steps our country needs to follow in order to improve the process of accessing and implementation of structural instruments at national level. These recommendations focus on preventing obtaining a low rate of absorption of EU funds allocated to Romania in the multiannual financial framework 2014-2020, thus preventing wastage prospects of economic and social modernization, that these funds offer.*

Keywords: absorption capacity; contraction rate; European funds; cohesion policy; multiannual financial framework

Introduction

The process of regional integration, which is reflected in the EU as the highest level of aggregation between 27 strong economies, is proving especially in the current international political and economic circumstances, extremely complex, as it has to cope with growing challenges being on a redefinitions background and launching messages to all sections of society that they must decrypt them quickly and correctly (Ungureanu, 2012, p.10). For this goal to be realized it is necessary that each Member State of the European Union to harmonize the organizational policies and the legal and institutional framework with the european ones as soon and as efficiently, in order to allow consolidation in terms of competitiveness and regional development.

Becoming a member of the European Union is a cause for praise for all European countries, but it also represents a challenge given by the ability of each state to harmonize national policies and legal and institutional framework with the EU. The ease with which a state succeeds to connect and cooperate with the

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European institutions is the key to integration. Cohesion policy is one of the solutions proposed by the European Commission for the recovery of development gaps between countries because efficient use of its financial instruments determines strengthen the competitiveness of the European economy, accelerate economic growth and increasing employment.

The procedure for allocating funds to the European Member States is based on the Multiannual Financial Framework, a tool through which allocations are set for each country-specific development guidelines based on established community funds. The absorption of these funds is directly determined by the administrative, institutional and financial capacity of each Member State entitled to benefit from EU funding. The performance of each state in attracting and using these funding structural instruments can be measured by the absorption rate which indicates the actual flows of money entering in the national economy through projects implemented and financed by the European Union.

In terms of poor absorption, Romania has no precedent from the establishment the European Community. The roots of this costly failure must be sought in the period 2005 - 2007, when the Romanian government simply failed in preparing the country in terms of institutional and administrative support to absorb the funds that were about to be available. The concern arises due to the fact that in the period 2007-2012, Romania has absorbed about 10 % of the Structural and Cohesion Funds, by far the country which, in comparative terms, has the worst performance between the 27 Member States (Bostinaru 2013, p.7).

1. The general context which led to a low absorption rate of EU funds in Romania

In the context of financial crisis that has hit the economies of the EU Member States, the economic recovery and growth policies that have been targeted by the governments of these countries, did not in all cases, consider the cohesion policy proposed by the EC, which may have played a role in reducing deficits through the economic and human resources allocated. This is the case of Romania, who has not given adequate importance of this policy, whereby in Romania could get about 19 billion, which would be reflected in infrastructure investments generating jobs and in amounts money entering in the state budget through collection levers, such as taxes and contributions, all contributing to reducing unemployment, to economic growth and reducing the budget deficit. Thus, regional development policy represents for EU Member States, either old or new, one of the most important development tools. A special role in achieving this objective is Romania's capacity to develop and implement sustainable development projects by attracting funds from the European financial instruments. Clearly, the absorption efficiency is conditioned by the administrative capacity of the receiving State, in this case, Romania (Constantine, 2009).

The lack of vision of governments and the budgetary constraints imposed by agreements with international financial institutions, have negatively affected Romania's absorption capacity because there were two events that have put pressure

to the process: the VAT increase, which increased the price of European money and money for co-financing projects and reducing the salaries of officials, including those of experts in European funds. A recent study (Bostinaru, 2009) entitled "White Paper of administrative capacity - absorption of European funds by small and medium-sized communities," revealed a number of weaknesses in Romania regarding the organizational framework in accessing European funds, such as: the lack of training of staff involved in the process and the weak budgetary capacity of local governments, bureaucratic obstacles, implementing rules being too bulky and hard to understand their content, lack of transparency on co-financing regulations, lack of partnership and cooperation between the institutions involved. Regarding the process of accessing and implementing projects financed from structural funds in Romania, numerous reports prepared by the European Commission or its subsidiary bodies revealed two major vulnerabilities: corruption and inadequate public procurement practices. Thus, in a monitoring report of the European Commission the following aspects are mentioned:

Romania should strengthen its anti-corruption policy, in particular through high-level coordination and based on an independent assessment of the impact of the results of the last two anti-corruption strategies implemented in 2005. In addition, regarding public procurement, Romania should assess the effectiveness of the legal framework and the attribution of responsibilities of competent authorities in protecting against conflict of interest and modify them if necessary. In addition, the authorities should consider the prohibition for senior civil servants and elected representatives to benefit directly or indirectly from commercial contracts concluded in the name of their institution and to establish full transparency in this area (Katsarova, 2010).

The problems of corruption and lack of transparency in accessing and implementing European funds in Romania has been much discussed, but despite numerous warnings and sanctions that our country has received from the European Commission for the non-compliances reported (suspension of payments) there have been made no significant reforms and measures to prevent and stop these irregularities. The European Commission report on progress in Romania under the Cooperation and Verification Mechanism on 30 January 2013, states the following:

"Seem very limited progress in the prevention and punishment of corruption related to public procurement. Steps forward made in the fight against high-level corruption have not been accompanied by improvements in public procurement. Investigation files seem to last long, partly because of the need for specific financial expertise, which leads to the particular problem of contracts concluded before a judicial pronouncement on offense. Penalties for officials involved in cases of fraud in public procurement are still very small, and the law does not provide for an annulment on the grounds of conflict of interest of the projects that have already been executed. There are also serious doubts about the effectiveness of the prosecution that manage these cases. Recent proposals are seen to issue independent and stable institutional basis, which is essential for making real progress."



All these irregularities reported on Romania will make hover always a question mark on the accuracy and reliability that our country addresses the issue of structural and cohesion funds, raising numerous suspicions on the integrity of Romanian audit and control mechanisms, on the one hand, and on the management of ministries and institutions involved in the absorption process, on the other hand. Due to numerous irregularities, the European Commission has sanctioned Romania by suspension of payments in 2011, 2012 and 2013. In all the reports of the European Commission conducted in the period of 2007-2013 have reported the same vulnerabilities of the implementation system of structural funds in Romania, but they all seem to remain unanswered among governors who proved poor management of these issues and failed to take concrete decisions to resolve these issues, transforming Romania in a net contributor, not being responsible and conscious of the importance that the cohesion policy has among the European community. These reports are questioning how governments intend to address the cohesion policy, the main causes of lower absorption rates of European funds being the weak administration, the inefficient procedures and the political interference as the judicial system can not protect enough against conflict of interest, corruption and fraud.

2. Analysis of the absorption rate of EU funds in Romania

2.1. Identification of the main causes leading to record a low absorption rate of EU funds in Romania

Component of cohesion policy promoted by the European Commission, European funding contributes to mobilize the necessary resources to accelerate the measures necessary to achieve the objectives of the Community. The allocation of funds from the EU budget has to be capitalized as it represents an inexpensive and important resource for the social and economic recovery of Romania, offering the prospect for the budgetary sustainability, encouraging public and private investments and thereby reducing the development gaps both at national and international level. The opportunities of economic growth that European funding brings to the Member States are particularly important, but under the current worldwide economic decline, these financial instruments are indispensable mechanisms to counter the effects of the economic crisis and reduce national budget deficits.

In other words, the only way to counter the effects of the economic crisis is to improve absorption capacity of EU Funds, which in the case of Romania was very low so far, and this is mainly due to the following causes:

- inefficiency of the specialized institutions coupled with low awareness and experience of the beneficiaries in the development and implementation of projects, but also because of the difficult process of training personnel specialized responsible for European funds;
- low awareness of the potential beneficiaries on the conditions of implementation and operation of European funds and the lack of predictability



of the legal and institutional framework (repeated changes have discouraged potential beneficiaries) and lack of transparency practices for accessing and implementing these funds.

However, the low percentage of applicants who have used the services of specialized consultancy companies in EU funds, resulted in a lack of quality projects and therefore lack of financing.

Also, the abolition of the National Institute of Administration in 2009, reduced the number of qualified personnel in the central and local government. Finally, the increase in the VAT rate in Romania and the influence of exchange rate lei/euro in the recent years have led to the situation that the potential beneficiaries canceled to the implementation of the planned projects since the business plan could not be realized due to changes financial market.

According to the magazine "European Counsellor", at the local/regional authorities, including the Management Authority and Intermediate Bodies, the following weaknesses were identified:

- „low coping capacity related to the size of the absorption process, due to the shortage of staff assigned to these procedures, which led to delay in project assessment and, consequently, the financing of a small number of projects;
- constantly amending and updating the eligibility conditions related to the beneficiary or projects; these changes being operated even during the session of projects deposit, which resulted in most cases in project changes or led to the lack of compliance of the submitted project, in the cases where they were already submitted" (Constantine, 2009).

According to another study called "Factors influencing the low rate of absorption of structural funds in Romania" (Beric, 2010), they can be divided into two categories:

- internal factors - which refers to the beneficiary;
- external factors – related to institutions that monitor the implementation of projects.

Internal factors that contribute to a low rate of Structural Funds are identified in the two phases of the project management cycle: in writing grant applications and in the implementation of projects. External factors influencing the rate of absorption occur at all stages of project implementation, especially during phases of selection and implementation.

According to the ones mentioned above, we can say that the problems that Romania has encountered in the absorption of European Funds are determined mostly by delayed and inconsistent implementation of European legislation in the field, the way the public authorities chosed to apply those rules and the lack of financial resources for co-financing the projects by beneficiaries.



2.1.1. Legislative barriers with impact on the rate of absorption of European Funds

Legal barriers have occurred at all stages of absorption of European Funds. Most of the weaknesses of the implementation system of structural funds were due to the lack of an appropriate legal framework, which was set too late and subject to many changes. So the lack of continuity in the application of rules governing the Structural Funds and the lack of transparency regarding the implementation process led to the recording very low rates of EU funds absorption. Also, the most important legislative shortcomings derive from legislation on the national budget, which contains a number of provisions affecting the efficient and rapid implementation of projects. According to a report issued by the Romanian Government (2010), some deficiencies have been resolved with the approval of the Emergency Ordinance no. 64/2009 on the financial management of structural instruments and their use for the convergence objective. By this regulation, it was sought the fluidized-budgetary financial flows within the operational programs financed from structural instruments and thus increasing absorption. However, there are still some management regulations on the public funds that hinder implementation, such as the public finances law and local public finance law.

Delays and hesitations in changing public procurement legislation related to political involvement and awarding contracts based on patronage has considerably increased distrust for the European Commission in Romania's commitment on reducing fraud in the use of structural funds. As a result, the European Commission ordered the suspension of payments for the Operational Sectorial Program - Infrastructure and generated the decision to lock payments in 2012 for the Operational Sectorial Program – Human Resources Development. These measures had a negative impact on the absorption capacity of EU Funds.

2.1.2 Institutional barriers with impact on the rate of absorption of European funds

Despite shortcomings in the Romanian institutional system from the time of accession to the European Union, many assessments carried out by the Audit Authority and the European Commission on the missions conducted in 2008-2012 were completed through accreditation of management and control for all seven Operational Programs. However, institutional difficulties, especially those related to the complexity and bureaucracy procedures and personnel concerned, continues to exist.

One of the main problems that the actual implementation of programs face is represented by insufficient human resources and financially poorly motivated personnel of the competent authorities. Workload and the high degree of responsibility of the activities carried out by internal staff led in most cases to the instability of staff trained in managing these structural instruments.

The main consequences arising from weak institutional framework are:

- delays in the development of guidelines for applicants and in the contracting of technical assistance;
- delays in completing major project preparation and approval by the European Commission;
- delays in project implementation, with direct impact on the absorption and possibly default on commitments under the Accession Treaty of Romania to the European Union.

It should also be noted that institutional difficulties worsened with blocking vacancies in the public sector as a result of austerity measures imposed by the financial and economic crisis that hit all EU countries, including Romania.

Another major problem is represented by bureaucracy at the time of application and processing documentation. Although local authorities tried to eliminate this problem, they failed to eliminate and/or remove bureaucracy problem when processing the request and documentation. In addition, they are still required to submit projects, administrative and financial documents in addition to those provided in the Guide for Applicants, which are unnecessary and only complicate the process.

2.2. Presentation of results achieved by Romania in accessing European funds for the period programming of 2007-2013

According to the convergence program set out in the National Strategic Reference Framework for 2007-2013, in Romania were approved seven Operational Programs. In order to implement these programs were allocated 19.213 billion euros from the Structural Funds (SF) and Cohesion Fund (CF), on which our country had to participate with co-financing estimated at 5.6 billion Euro.

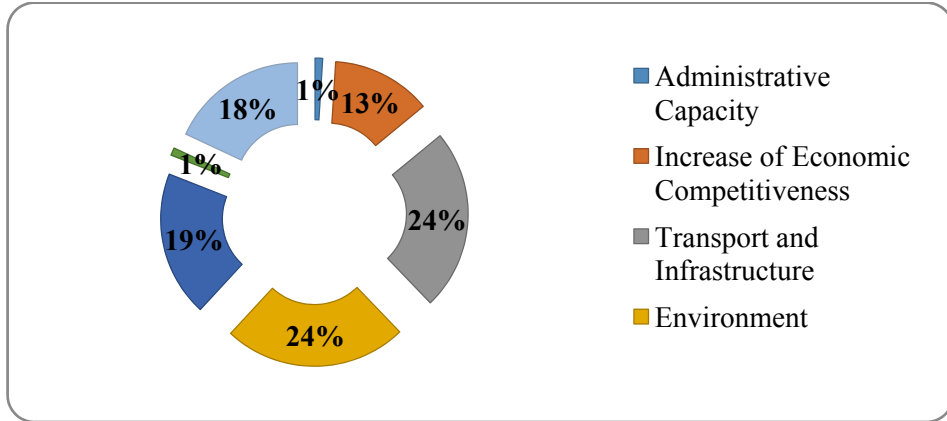
The seven Operational Programs subject to the National Strategic Reference Framework are:

- Regional Operational Program (ROP);
- Increase of Economic Competitiveness Operational Program (IECOP);
- Environment Sectorial Operational Program (ESOP);
- Transport Sectorial Operational Program (POST);
- Human Resources Development Operational Program (HRDOP);
- Administrative Capacity Development Operational Program (ACDOP);
- Technical Assistance Operational Program (TAOP);

The distribution of European Funds on the seven Operational Programs according to the National Strategic Reference Framework for the period 2007-2013 is as follows:



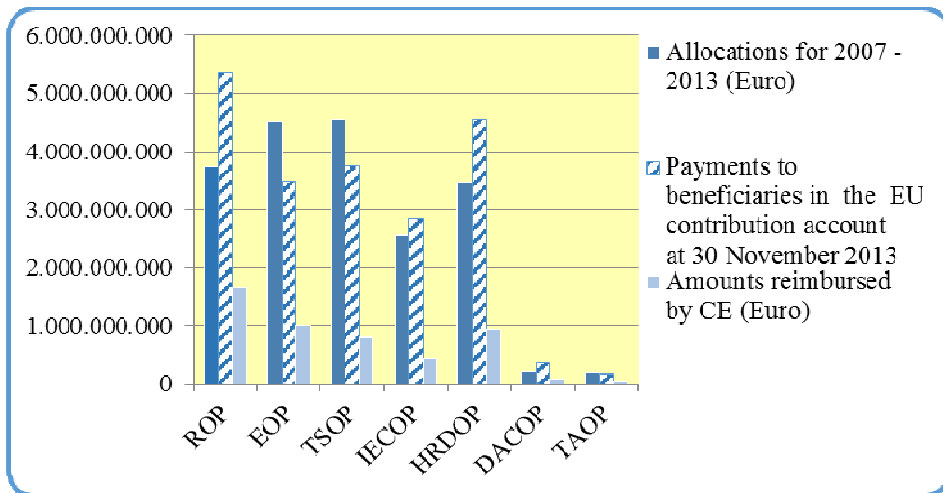
Figure 1. Allocation for Operational Programs according to the National Strategic Reference Framework



Source: Data taken from the Informative Bulletin - Structural Instruments, No. 14, January – 2013

The situation of the absorption of structural and cohesion funds at 30.11.2013 for each Operational Program is as follows:

Figure 2. The situation of the absorption of structural and cohesion funds at 30.11.2013 for each operational program



Source: Data taken from Informative Bulletin - Structural Instruments, No.8, December – 2013

As it can be seen from Figure 2, Romania focused mainly on the absorption of EU funds in regional development, environment and human resource development. These three Operational Programs had the highest rates of absorption, investments being materialized in modernizing regional and local transport infrastructure, improving social infrastructure, sustainable business support structures of regional and

local importance, rehabilitation of polluted industrial sites, upgrading the treatment plant and waste collection systems, as well as qualifications and training for human capital. Funds raised through the Transport Operational Program have not resulted in a high effective absorption rate, as the modernization and development efforts of the national transport infrastructure in order to develop a sustainable national transport system, have been hampered by political involvement in the organization of public tenders for contracting works (European Commission has reported numerous irregularities in its reports on corruption and stopped payments for the projects where were found deviations from the law) and the cumbersome process and lacks of transparency in public procurement.

In terms of increasing economic capacity (IECOP) the funds have largely supported the development of private economy in Romania, but leaving behind the country's public economic competitiveness that has a lot of catching in terms of performance and productivity.

One of the reasons for the low rate of absorption of EU funds in Romania, is given by the poor attention that our country has given to the two major Operational Programs in terms of technical assistance and administrative capacity that would have played a great role in supporting the process of absorption of European Funds. Fundraising for the two programs would have provided a framework for effective monitoring and implementation of projects by establishing attractive incentives for staff involved in the management of Structural Funds, including improved wages and providing ongoing training and exchange of experience with Structural Funds authorities in neighboring Member States.

The table below shows the contribution of the Structural and Cohesion Funds in achieving the objectives of the cohesion policy through implementation of the 2007-2013 Operational Programs at national level:

Tabel 1 - The contribution of the Structural and Cohesion Funds in achieving the objectives of the cohesion policy

Operational Program (OP)	% from the amounts allocated	Financing Funds	Management Authority of the OP
R OP	23 %	ERDF + CF	Ministry of Regional Development
E OP	23 %	ERDF + CF	Ministry of Environment
T SOP	19 %	ERDF	Ministry of Transport
IEC OP	18 %	ESF	Ministry of Economy
HRD OP	13 %	ERDF	Ministry of Labour, Family and Social Protection
DAC OP	1 %	ESF	Ministry of Public Administration
TA OP	1 %	ERDF	Ministry of Finance

Source: Boldea Bogdan Ion – “Analysis of the absorption capacity of structural funds in Romania” Annals. Economics Science Series. Timisoara, volum: XVIII/2 / 2012, p: 580.

In order to establish the implementation stage of the Operational Programs it is important to determine the absorption capacity of structural funds for each of



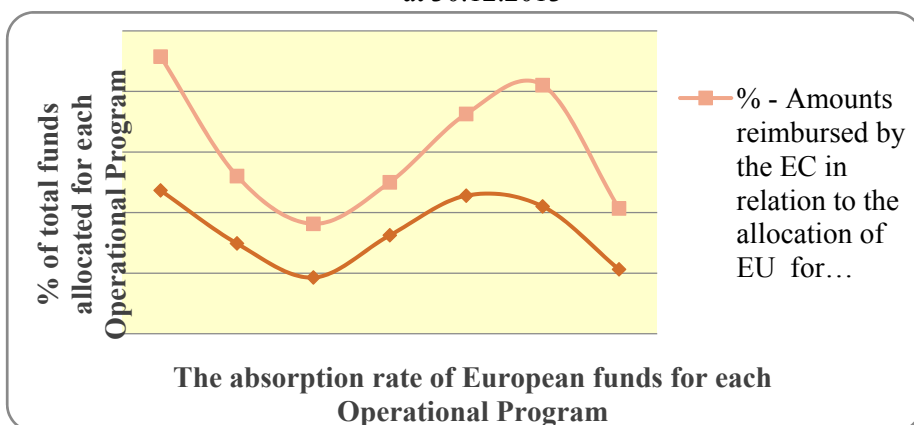
them. The absorption rate can be calculated according to several indicators, the most relevant being (Informative Bulletin (2010):

- 1) EU contribution payments in relation to the EU allocation for 2007-2013 (payments made on projects of money allocated by the European Commission, excluding national contribution, money to be settled later by the European Commission);
- 2) Amounts reimbursed by the European Commission in relation to the EU allocation 2007-2013 (amounts reimbursed by the Romanian state through the Ministry of Finance on each program).

After processing the data presented in the table above we can see that the total absorption rate of EU funds for the 2007-2013 programming period, expressed as a percentage, for the first indicator is 33.79%, while for the second it is 25.84%.

In 2013, Romania registered a rate of absorption of EU funds of 34%, the actual funds reimbursement registered in the same year was 2.88 billion euros from the European Commission. The result is good if we compare it with the period 2007-2012, when the total amount of payments related to contracted programs conducted by the European Commission totaled 2.2 billion euros. However, despite the fact that Romania has seen a significant increase in the rate of absorption of EU funds, we are still situated at the end of the ranking in this area. Another way of determining the absorption rate of EU funds is given by the difference between the contracted rate of European Funds and the payment rate of the European Commission, which is an important indicator that measures the actual level of efficiency and effectiveness of the management of EU funds by the beneficiary state. The lower is the difference between the contracted grants and grants paid, the more effective is the management of these funds in terms of the actual distribution.

Figure 3. The rate of absorption of European funds for each Operational Program at 30.12.2013



Source: Author's processing according to data provided by the Ministry of European Funds

Table 2. EU funds absorption rate for each Operational Program at 30.11.2013

Operational Program	Allocations for 2007-2013 (Euro)	Payments to beneficiaries in the EU contribution account at 30 November 2013	Amounts reimbursed by EC (Euro)	% - EU payments contribution in relation to EU allocation for 2007 - 2013	% - Amounts reimbursed by the EC in relation to EU allocation for 2007 - 2013
POR	3.726.021.762	5.358.734.160	1.646.565.915	47,32	44,19
POM	4.512.470.138	3.487.678.064	1.004.817.198	29,79	22,27
POST	4.565.937.295	3.750.418.520	809.840.107	18,55	17,74
POSCCE	2.554.222.109	2.843.582.851	447.006.603	32,49	17,5
POSDRU	3.476.144.996	4.556.904.629	938.333.518	45,58	26,99
PODCA	208.002.622	362.225.904	83.322.994	42,02	40,06
POAT	170.237.790	154.673.550	34.274.011	21,22	20,13
TOTAL	19.213.036.712	20.514.217.741	4.964.160.346	33,79	25,84

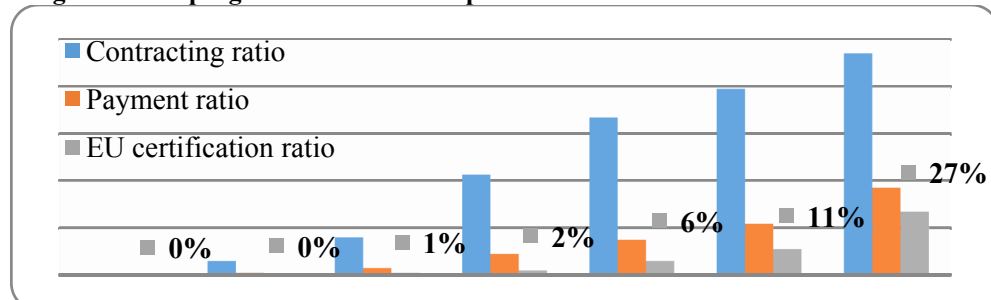
Source: Data taken from Informative Bulletin - Structural Instruments, No.8, December – 2013

Table 3. The progress of EU funds implementation in Romania between 2007-2013

Year	2007	2008	2009	2010	2011	2012	2013
Contracting ratio	0	6%	16%	43%	67%	79%	94%
Payment ratio	0	1%	3%	9%	15%	22%	37%
EU certification ratio	0	0	1%	2%	6%	11%	27%

Source: Author's processing according to data taken from KPMG's 2007-2013 Report

As it can be seen, the difference between the two rates recorded significant values, which means that in Romania there is no performant management of the structural instruments allocated by the European Union. The low absorption rate recorded in Romania, makes us rather a net contributor to the EU budget.

Figure 4. The progress of EU funds implementation in Romania between 2007-2013

Source: Author's processing according to data taken from KPMG's 2007-2013 Report



According to a study by KPMG (2013), the main challenges that Romania has encountered in the absorption of European funds for the programming period of 2007-2013 were:

- Lack of skills to coordinate a project from the beneficiaries of EU funds contributed to numerous financial corrections in the implementation phase of projects;
- Numerous delays in assessing applications for funding and / or reimbursement, which were due to lack of funding among managing authorities and intermediate bodies;
- Challenges in terms of efficiency and sustainability of a project due to lack of training of beneficiaries in project development / business plans;
- Complicated and lengthy procedures of public procurement, which were valid for the private sector, have brought significant delays in project implementation cycle.

It can be seen that the experience of implementing the 2007-2013 programs has highlighted the need for measures and actions dedicated to the development and strengthening of administrative capacity and institutional management structures involved and preparing a portfolio of mature projects so as to ensure the smooth start of the next programming period. The quality of the projects remains a problem which delays both in terms of disapproval strategic projects and in the implementation of infrastructure projects approved (delays often generated by insufficient training in the application of financing and feasibility study, technical project, the cost-benefit analysis or environmental impact). Use of technical assistance by the authorities for preparation of project portfolio management resulted in a disclaimer from the beneficiaries of the project. Also, in some cases, managing authorities have failed to conclude timely technical assistance contracts which led to delays in the preparation of quality projects.

Thus it is imperative to identify and implement decisive action to trigger a true "absorption jump" to strengthen the capacity of absorption of Structural and Cohesion Funds. Problems should be addressed immediately and weaknesses in large greater the implementation of structural and cohesion in order to eliminate or significantly reduce the barriers that stand in the way of absorption process (Ungureanu, 2012, p.267).

Conclusions

Romania's experience in accessing European funds related to the 2007-2013 programming period was not marked by success, as some revealed a number of weaknesses and vulnerabilities of institutional and legislative framework employed in the implementation of structural instruments, materializing into a low rate of absorption of EU Funds. Given this experience, Romania should focus on the following aspects:

- *learn from the mistakes of the 2007-2013 programming period* - this experience provided valuable lessons and best practices for the next generation of EU-funded projects;



- *strengthening the capacities of beneficiaries* - in most cases, the beneficiaries of EU-funded projects did not have the technical and managerial expertise. This is particularly evident in the implementation process, leading to delays and irregularities. Therefore, the government should provide concrete measures to assist beneficiaries in the implementation of projects financed by the EU through dedicated assistance offices, subsidized textbooks and courses;
- *strengthening the administrative capacity* - the lack of administrative capacity was the main reason for the slow implementation of EU funds so far. Romania has accumulated significant experience in the last 7 years. However, the government must ensure that the skills and expertise are constantly updated according to new EU regulations for EU funds Procurement Directive and other relevant EU legislation. This can be achieved by developing an effective strategy of human resources staffing quality, improve staff skills and appropriate remuneration. If the local administration lacks expertise then technical expertise should be contracted;
- *taking the model of other EU Member States which have proved to be efficient in the absorption of EU funds* - Romanian authorities should learn from the experience of EU countries with more experience in managing EU funds. Examples tested and best practices from countries such as Poland, Germany or Ireland can and should be applied in Romania;
- *simplification of the EU funds absorption process* – there is no need to overload the managing authorities and beneficiaries with excessive documentation and bureaucratic procedures;
- *increased attention to information campaigns*. Potential beneficiaries of EU funds, whether public authorities, SMEs and NGOs should participate in information campaigns. This would ensure good and innovative ideas to materialize in projects financed. Moreover, if citizens are informed about funding opportunities for the local community, they will require support from mayors and county councilors;
- *periodic monitoring* – the implementation of EU funds should be constantly monitored by national authorities and the European Commission. If the implementation is slow, solutions need to be identified and quickly applied;
- *focus on results* - Priority should be given to investments and projects that bring significant improvements and lead to results. The authorities should focus not on how quickly they spend money, but rather the way in which EU-funded projects can help reduce inequalities, raising living standards and poverty reduction;
- *investments in transport and social infrastructure* - Government should allocate sufficient funds for roads and quality rail links and social infrastructure such as hospitals and schools. Only by investing in high quality infrastructure, Romania can attract foreign investors and reduce the



access barriers to a proper health and education system. Economic and social benefits of infrastructure investments are endless and priceless;

- *focus on the development of national and regional strategic projects* – that would represent an integrated strategy and would be implemented among public authorities at local and central levels.
- *use appropriate technical assistance* - recommending authorities to outsource complicated assistance;

For the 2014-2020 programming period, Romania has an interest in being a net beneficiary, which means that, as long as it is member state of the European Union, Romania is obliged to contribute to the EU budget and that would be to its advantage to attract the European funds to which it is entitled, in order to ensure a balance between the beneficial Romania's contribution to the EU budget and the Structural Funds absorbed. The Structural Funds is thus a key resource for the development on short, medium and long term of the Romanian economy. An increased rate of absorption of these funds is a central element of fiscal sustainability in terms of investment strategy and reduce the budget deficit through capital injection in areas of major importance.

As a conclusion of the ones mentioned above, it can be said that despite the reactivity, although slow, of the authorities involved in the granting European funding, the problem of taking measures in order to facilitate the access of potential beneficiaries to financing lines and improve the low degree of absorption of European funds in Romania, remains open and topical. In this respect, it is worth noting that the low rate of absorption is due to all actors involved in the process, so that not only the intrinsic problems of public administration system generates an effect, but also legislation and lack of training of potential beneficiaries in developing and implementing the projects that are financed by the European Union.

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ECONOMIC CONSEQUENCES OF PUBLIC DEBT. THE CASE OF CENTRAL AND EASTERN EUROPEAN COUNTRIES

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Abstract: *The paper aims to empirically assess, using panel data estimation techniques, the effects of public indebtedness on economic growth for a group of 11 Central and Eastern European countries and over the period 1994-2013. Our hypothesis is that, although public indebtedness may fuel economic growth, once public debt breaches a certain threshold the effects are reversed and public indebtedness negatively affects GDP growth rates. The results of our study confirm this kind of relationship, with a maximum debt threshold for all countries of about 45-55% of GDP, lower for the less developed (like Romania and Bulgaria) and higher for the more developed ones. Also, the threshold for Central and Eastern European countries is found to be lower than the one identified in other empirical studies for developed EU countries, as the former enjoy lower credibility, higher vulnerability to shocks and depend more on external capital transfers.*

Keywords: public debt; economic growth; CEECs; instrumental variable estimation

Introduction

If the regular budgetary revenues coming from taxes are insufficient to cover all public expenditures, public authorities will use public loans to fill this gap, and public debt will sign on an upward trajectory. Such an approach is usually accepted both in the literature and in practice when borrowed resources are used to finance public investment expenditures with high economic and social efficiency, thus creating preconditions for ensuring an upward economic growth trend. This course of action has been taken into consideration by the countries of Central and Eastern Europe (most of them with low public debts at the beginning of the transition), that have borrowed to support the extensive program of reforms inherent to the transition to a functioning market economy and, subsequently, to recover the development gaps from other EU Member States.

The realities of the recent sovereign debt crisis in EU countries have shown that a large public debt can equally prove to be harmful to economic growth, so it should be kept within certain limits. Although the EU Member States from Central and Eastern Europe have been less affected by the crisis, and their debts generally

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are (with the exception of Hungary) much lower than those of the “old” EU Member States, that joined the EU before 2004, the question is to what extent these countries’ situation can be considered out of the “danger zone”.

Against this background, the paper seeks to empirically examine the effects of public debt on GDP growth rates in 11 EU Member States from Central and Eastern Europe, for a period of 20 years, from 1994 to 2013. More specifically, our research aims to achieve the following objectives: to establish if it is confirmed the existence of a nonlinear (quadratic) relationship between the GDP growth rate and the public debt-to-GDP ratio; to identify, for the 11 countries of Central and Eastern Europe, the public debt-to-GDP turning point, after which debt is expected to negatively affect economic growth; to determine whether there are significant differences between different subgroups of EU Member States from Central and Eastern Europe, differentiated by criteria such as the degree of development or the belonging to the euro area (in particular, to see to what extent the above identified threshold is applicable to Romania).

The remainder of the paper is structured as follows: the first section presents a short literature review on the effects of public debt on a country's economic growth rate; in sections 2 and 3 we describe the model, the estimation techniques, the variables and data sources; section 4 presents the results of our estimations and discussions; the paper ends with conclusions and some policy recommendations.

1. Short literature review

The assessment of the effects of public debt on various aspects of the socio-economic life, especially on the GDP growth rates, has become a major concern of the scientific and academic community once EU sovereign debts began their unsustainable growth path, during the recent international economic and financial crisis.

Given the particularities of the sovereign debt crisis, that mainly affected developed countries, recent empirical studies have focused on the situation of this category of countries, especially those members of the EU and the euro area (Misztal, 2010; Kumar and Woo, 2010; Reinhart and Rogoff, 2010; Reinhart and Rogoff, 2010b; Checherita and Rother, 2010; Baum *et al.*, 2012; Bilan and Ihnatov, 2014; Mencinger *et al.*, 2014; Mencinger *et al.*, 2015; Gómez-Puig and Sosvilla-Rivero, 2015; Antonakakis, 2014). However, the results of these studies are not uniform ones, in relation to the methodology used, to the group of countries or the timeframe of the analysis, they oscillate between recognizing a positive impact of public debt and identifying adverse effects of public indebtedness of the GDP growth rates. A particular category of studies, seeking to evaluate the existence of nonlinear effects of public debt on the economic growth rate of a country, identifies a maximum debt-to GDP threshold after which the positive effects of public debt substantially diminish, even becoming negative.

The analysis undertaken by Kumar and Woo (2010), on the example of 38 developed and emerging market economies and for the period 1970-2007, outlines the existence of an inverse relationship between public debt and long-term



economic growth, due to the negative impact of public indebtedness on investment and the rate of capital accumulation. An increase of the initial debt level with 10% of GDP is associated, according to the authors, with a reduction of the real GDP per capita growth rate of about 0.2% per year, the effects being stronger in emerging market countries and weaker in developed ones. Also, based on VAR methodology, Misztal (2010) finds for the EU Member States that, on average, over the period 2000-2010, the increase of public debt by 1% resulted in the reduction of GDP by 0.3%, while a 1% increase in GDP led to the reduction of public debt by 0.4%.

Although heavily contested, the studies of Reinhart and Rogoff (2010a; 2010b), analyzing the relationship between central government debt and the long-term real GDP growth rate for a group of 44 developed and emerging market countries and for a period of more than two centuries (1790-2009), identify the existence of a weak connection between the two indicators until debt reaches 90% of GDP. After this threshold the link is found to become stronger, the real economic growth rate in countries with public debt above 90% of GDP being, on average, a few percent lower than in other countries.

Assessing the impact of public debt on economic growth for 12 EMU Member States for the period 1970-2008, Checherita and Rother (2010) also identify the existence of a nonlinear relationship, with a maximum debt-to-GDP threshold beyond which debt's effects on the GDP growth rate became negative of about 90-100% of GDP. Based on a different methodology, but for the same group of countries and the period 1990-2010, Baum *et al.* (2012) find public indebtedness has a positive impact on short-term economic growth until debt reaches 67% of GDP, beyond this threshold the effects becoming insignificant and even negative after 95% of GDP.

Mencinger *et al.* (2014) investigate the short-term effects of public debt on the economic growth rates of 25 EU countries affected by the European sovereign debt crisis, for the period 1995-2010 (for the „new” EU Member States) and 1980-2010 (for the „old” EU Member States). They find evidence of a nonlinear (inverted U-shape) relationship, the debt turning point being higher for the „old”, more developed EU Member States (of about 80%-94% of GDP) and lower for the „new” EU Member States (of about 53%-54%). The same authors (Mencinger *et al.*, 2015) further expand their analysis for a panel of 36 countries (31 OECD countries and 5 non-OECD member states) and reach similar conclusions. The same concave relationship is validated, with a debt-to GDP threshold of about 44%-45% in emerging market countries, about half the value of developed countries.

Gómez-Puig and Sosvilla-Rivero (2015) find evidence, for EMU countries and over the period 1980-2013, for the existence of a bi-directional causal relationship between public debt and economic growth. For some of the countries included into their analysis, as Belgium, Greece, Italy and Netherlands, they also find that debt has deleterious effects on economic growth only above a certain debt threshold, ranging between 56% and 103% of GDP, depending on the country.

Evaluating the effects of sovereign (sustainable and unsustainable) debt on short-term and long-term economic growth for 12 EMU countries over the period 1970-2013, Antonakakis (2014) finds that, on the short-term, non-sustainable debt-ratios above and below the 60% threshold have detrimental effects, while sustainable debt-ratios below 90% have positive effects. Also, with regard to long-term economic growth, both unsustainable and sustainable debt-ratios above the 90% threshold and unsustainable debt-ratios below the 60% have detrimental effects.

The papers dealing more specifically with the situation of Central and Eastern European countries are limited in number (Časni *et al.*, 2014; Gál and Babos, 2014). Performing a dynamic panel data analysis based on the pooled mean group estimator, for the period between 2000 and 2011 and for a sample of 14 Central, Eastern and Southeastern European countries, Časni *et al.* (2014) find that public debt has a significant negative influence on economic growth rates over both the short-term and long-term. Therefore, their recommendation is to design policy frameworks that encourage exports, promote long-term investment, but also support fiscal consolidation, in order to promote economic growth. Gál and Babos (2014) conduct a comparative analysis on the effects of public debt on economic growth for the Western and Post-communist New Member States of the European Union from 2000 until 2013. They find that, although the later are less indebted by comparison to the „old” EU members, high levels of public debt are more damaging for them, so keeping public debt under control is especially important for young EU members.

An overall assessment of previous empirical studies on EU Member States from Central and Eastern Europe shows that they generally confirm a linear negative relationship between public debt and economic growth. Therefore, our study contributes to existing literature by testing the existence of a nonlinear, „inverted U-shape” relationship between public indebtedness and economic growth in Central and Eastern European countries, meaning that the negative effects appear only after debt breaches a certain threshold.

2. Methodology

In order to capture the effects of public indebtedness on economic growth in Central and Eastern European countries, we use a standard economic growth model, linking the economic growth rate of a country to its GDP per capita of the previous year, the population growth rate and other determinants of economic growth (among which public debt, the variable we were interested in), as depicted by equation (1).

$$y_{i,t}/y_{m,i,t/t+n} = \alpha + \beta \ln Y_{i,t-1} + \gamma \text{population}_{i,t} + \delta_1 \text{public_debt}_{i,t} + \delta_2 \text{public_debt}_{i,t}^2 + \rho_k X_{k,i,t} + \vartheta_i + e_{i,t} \quad (1)$$

where: i is the country ($i=1,11$); t is the year ($t=1,20$); y is the dependent variable (the GDP per capita growth rate); $\ln Y$ is the natural logarithm of the real GDP per



capita; *population* is the population growth rate; *public_debt* is the general government debt-to-GDP ratio; X_k is a vector of control variables with effects on economic growth; α is the constant term; ϑ_i are the country-specific intercepts; $e_{i,t}$ are the observation-specific errors; $\beta, \gamma, \delta_1, \delta_2, \rho_k$ are the coefficients of the explanatory variables.

In our baseline model, we are looking to evaluate the short-term effects of public indebtedness on economic growth, so the dependent variable is the growth rate of the GDP per capita of the same year ($y_{i,t}$). In our subsequent models, we also test for the existence of medium and long-term effects of public indebtedness, considering as dependent variable the medium GDP per capita growth rate over 3, 5 and 7 consecutive years ($ym_{i,t/t+n}$).

In agreement with the findings of some recent studies (Checherita and Rother, 2010; Baum *et al.*, 2012; Mencinger *et al.*, 2014; Mencinger *et al.*, 2015), our hypothesis is that public debt has nonlinear effects on economic growth (of the form of a „Laffer” type curve), meaning that, while beneath a certain threshold, it may have positive effects on economic growth and, after that threshold, the effects may change becoming negative. In order to test for the existence of such nonlinear effects, we include both *public_debt* and *public_debt*² as explanatory variables, expecting for δ_1 (the coefficient of *public_debt* variable) to have positive values, and for δ_2 (the coefficient of *public_debt*² variable) to have negative values.

When designing the model we also included a set of control variables to express the impact of other determinants of economic growth, variables selected in agreement with the results of other empirical studies on similar issues (Kumar and Woo, 2010; Checherita and Rother 2010). In our baseline model, such variables are: the gross fixed capital formation, to reflect the impact of physical capital accumulation (*fixed_capital*); the general government budget balance to capture broader impact of public financial policies (*budget_balance*); the sum of exports and imports to GDP, expressing the impact of the degree of openness of the economy (*openess*); Freedom House index as a proxy variable for the degree of economic freedom (*free_index*). In order to test the robustness of our estimations, we than successively introduce into the model other control variables such as the real exchange rate (*exchange*), inflation rate (*inflation*), interest rate (*interest*), the domestic credit provided by the financial sector (*credit*), the general government budgetary revenues and expenditures (*gov_revenues* and *gov_expenditures*), the secondary school enrollment rate (*school_enr*). A detailed description of all variables included into the regression models and their significance can be found in Annex 1.

Although some may consider Central and Eastern European economies as a homogeneous group, in fact they are quite heterogeneous countries. It is enough to mention that they are both developed and developing economies and that their GDP per capita substantially differs among countries (for example, the GDP per capita of Slovenia was almost four times the one of Bulgaria, in 2013). Also, this group contains both euro and non-euro countries. So, to deal with the issue of

heterogeneity, fixed effects estimations are selected, allowing us to isolate the effects of the omitted variables, specific to each country.

Another issue specific to economic growth models is that of endogeneity, more specifically that of reverse causality. In our case, we should consider not only the possibility that public debt may influence the GDP growth rate of a country, but also that a higher GDP growth rate may lead to a lower public debt-to-GDP ratio. The bi-directional relationship is confirmed by studies such as that of Gómez-Puig and Sosvilla-Rivero (2014) or Mencinger *et al.* (2014). So, to control for endogeneity, we use instrumental variable estimation techniques (namely, two-step GMM), instrumenting *public_debt* and *public_debt*² variables by their one to three-years lags. The Hausman test allows us to test the statistical significance of selected instruments.

3. Data and descriptive statistics

Our study on the economic effects of public indebtedness is conducted on a panel of 11 Central and Eastern European countries that became member of the European Union starting with 2004 (namely Poland, Czech Republic, Estonia, Lithuania, Latvia, Hungary, Slovak Republic, Slovenia, Bulgaria, Romania and Croatia) and for a period of 20 years (1994-2013). The time frame of our analysis was limited by the lack of data (especially with regard to the public debt variable) from reliable, official sources to cover the first years of transition to market economy.

The data are annual series and have been collected from several international and European databases, as the International Monetary Fund's World Economic Outlook and Historical Public Debt databases, the World Bank's World Development Indicators and Health, Nutrition and Population Statistics databases and the European Commission's Annual Macro-Economic Database. A more in-depth presentation of the data sources for each of the variables included into our models can be found in Annex1.

Table 1 - Descriptive statistics of selected variables

Countries	GDP per capita growth rate (%)				GDP per capita (constant 2005 USD)				Public debt (% of GDP)			
	Mean	Std. dev.	Min	Max	Mean	Std. dev.	Min	Max	Mean	Std. dev.	Min	Max
Bulgaria	3.4	4.4	-8.6	8.6	3487.4	901.7	2354.0	4692.4	55.8	455	14.9	172.3
Croatia	2.7	4.0	-6.8	10.0	9309.3	1498.7	6532.0	11375.2	40.4	9.2	25.5	60.2
Czech Republic	2.5	3.0	-5.0	6.7	11953.5	2046.3	8852.9	14612.2	27.0	10.6	12.5	46.0
Estonia	5.1	6.1	-13.9	13.0	8825.2	2613.0	4659.0	12274.9	6.1	1.8	3.7	9.8
Hungary	2.2	2.7	-6.7	5.0	9756.3	1501.6	7411.6	11533.8	67.7	10.3	52.6	82.6
Latvia	5.5	6.5	-16.6	13.3	6108.5	2049.2	3290.0	8999.0	18.8	10.8	7.8	39.7
Lithuania	4.9	6.4	-13.8	11.2	7022.8	2319.1	3818.5	10549.2	22.4	10.2	7.8	41.2
Poland	4.3	1.9	1.5	7.0	7814.1	1888.0	4866.4	10752.8	47.1	6.7	36.8	58.7
Romania	3.5	5.0	-6.0	9.7	4491.8	1087.3	3254.0	6072.8	23.2	7.7	12.6	39.4
Slovak Republic	4.1	3.3	-5.1	10.5	11126.1	2752.1	7216.5	15065.3	33.0	11.0	18.5	55.4



Countries	GDP per capita growth rate (%)				GDP per capita (constant 2005 USD)				Public debt (% of GDP)			
	Mean	Std. dev.	Min	Max	Mean	Std. dev.	Min	Max	Mean	Std. dev.	Min	Max
Slovenia	2.6	3.5	-8.8	6.4	16474.2	2783.5	11726.2	20682.9	30.3	13.1	17.0	70.0
All CEECs	3.7	4.5	-16.6	13.3	8758.3	4031.1	2354.0	20682.9	33.8	23.3	3.7	172.3

Source: authors' calculations

The descriptive statistics of the main variables included into our models, reflected in table 1, show that, over the period of our analysis, public debt registered high variability among countries, ranging between 3.7% of GDP in Estonia (in 2007) and 172.3% of GDP in Bulgaria (in 1994). It is well known that, at the beginning of transition, some post-communist countries (Bulgaria included) had high public debt-to-GDP ratios, however they benefited from consistent debt reduction agreements. By comparison to other, more developed EU Member States, Central and Eastern European countries have lower public debts, the mean value over the entire period of analysis being of only 33.8% of GDP. Also, the less indebted countries are the Baltic states, namely Estonia, Latvia and Lithuania, in Estonia the maximum public debt level over the last 20 years being of only 9.8% of GDP.

High disparities among countries can be observed with respect to the annual GDP per capita growth rate as well, the standard deviation for the whole country group being of 4.5%. The GDP growth rate ranged, over the period of our analysis, between 13.3% in Latvia, in 2006, and -16.6% in the same country, in 2009, on the background of the crisis. However, the average GDP growth rate was quite high over the past 20 years, of almost 4% (higher than the one of the “old” EU Member States).

The GDP per capita in constant prices also varied substantially among different Central and Eastern European countries and in time. This proves not only that these countries recorded significant development gains during the past 20 years (in some countries the GDP per capita doubled or even tripled in value), but also that they are a quite heterogenous group, the more developed countries being Slovenia, Slovak Republic and Czech Republic, and the less developed ones Romania and Bulgaria.

4. Results and discussions

The estimation results for our sample of 11 EU Member States from Central and Eastern Europe are summarized in Table 2. Model (1) is our baseline model, where same year's GDP per capita growth rate is the dependent variable, and the drivers of economic growth are, together with public debt, the population growth rate, the gross fixed capital formation, the degree openness of the economy, the budget balance and freedom index. To confirm the robustness of our estimates, other possible explanatory variables of economic growth were successively

included as regressors, such as the exchange rate, interest rate, inflation rate, budget revenues and expenditures, domestic credit and secondary school enrollment rate (the results are synthesized in Annex 2). Also, in models (2) and (3) we introduced two dummy variables: *crisis*, to capture the impact of the economic and financial crisis on economic growth rates (taking the value 1 for the years 2007-2013 and 0 for 1994-2006) and *EU*, to capture the effects of the integration into the European Union (taking the value 1 if a country is EU member in one particular year and 0 otherwise). Models (4) to (6) evaluate the effects of public debt on medium and long-term economic growth rates, the dependent variable being the average GDP per capita growth rate over 3, 5 and 7 consecutive years (starting with the basis year).

It can be seen in Table 2 that, for all models, both the coefficients of *public_debt* and of *public_debt2* explanatory variables are statistically significant, so it is confirmed, for the case of the 11 EU Member States from Central and Eastern Europe, the hypothesis of a nonlinear, quadratic type relationship between public debt and economic growth, both over the short-term and medium and long-term (over 3, 5 and 7 consecutive years). With regard to the sign of the coefficients, it results that the one associated with *public_debt* variable always has positive values, while the one of *public_debt2* variable has negative values, which means that the functional relationship which links the growth rate of GDP and public debt is of concave type, admitting the existence of a maximum value. The results are also robust to the introduction of other explanatory variables into the model (see Annex 2).

Table 2 - Effects of public debt on short, medium and long-term economic growth in Central and Eastern European Countries (CEECs)

	Short-term effects			Medium and long-term effects		
	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)	Model (6)
				3 consecutive years avg.	5 consecutive years avg.	7 consecutive years avg.
<i>public_debt</i> ²	-	-	-	-0.00388***	-0.00442***	-0.00208***
	0.00296*** (0.000448)	0.00270*** (0.000393)	0.00308*** (0.000476)	(0.000577)	(0.000702)	(0.000339)
<i>public_debt</i>	0.327*** (0.0579)	0.298*** (0.0544)	0.332*** (0.0577)	0.354*** (0.0610)	0.431*** (0.0735)	0.195*** (0.0424)
L.lnY	-15.20*** (1.894)	-11.45*** (2.711)	-17.58*** (2.337)	-11.60*** (1.540)	-7.639*** (1.054)	-7.753*** (1.099)
population	-1.425** (0.555)	-1.239** (0.583)	-1.499*** (0.558)	-1.024** (0.521)	-1.405*** (0.465)	-1.106*** (0.372)
fixed_capital	0.715*** (0.118)	0.657*** (0.122)	0.704*** (0.115)	0.0617 (0.0991)	-0.0722 (0.0675)	-0.0880 (0.0611)
openess	0.146*** (0.0253)	0.155*** (0.0240)	0.136*** (0.0252)	0.0531*** (0.0195)	0.0472*** (0.0132)	0.0288** (0.0115)
budget_balance	0.458*** (0.122)	0.433*** (0.123)	0.462*** (0.119)	0.352*** (0.101)	0.236*** (0.0668)	0.0106 (0.0626)
free_index	-2.155** (0.838)	-1.821** (0.802)	-1.810** (0.814)	-1.445* (0.841)	1.869** (0.836)	0.597 (0.436)



	Short-term effects			Medium and long-term effects		
	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)	Model (6)
				3 consecutive years avg.	5 consecutive years avg.	7 consecutive years avg.
crisis		-2.030** (0.892)				
EU			1.694* (0.951)			
N	180	180	180	158	136	114
adj. R ²	0.502	0.522	0.507	0.369	0.576	0.660
maximum_debt	55.28	55.23	53.94	45.59	48.79	46.90
HansenPval	0.9578	0.9949	0.9175	0.1718	0.2199	0.7048

Notes: Standard errors between parentheses; heteroskedasticity and autocorrelation robust standard errors. Maximum_debt – the maximum value of the quadratic model in public debt ($\text{maximum_debt} = \frac{-\delta_1}{2\delta_2}$). Levels of significance: * p<0.10; ** p<0.05; *** p<0.01.

Source: authors' calculations

Therefore, it is confirmed the hypothesis that when public debt expressed as a share of GDP is small, the effects of public debt growth on the growth rate of GDP can be positive, but these effects gradually diminish as public debt is becoming more and important, and there is a certain debt threshold beyond which the effects reverse, and GDP growth rates diminish with further debt growth. For all countries in our sample, the debt-to-GDP turning point is approximately 53-55% of GDP for the short-term economic growth, and 45-48% of GDP for medium and long-term economic growth (well below the actual public debt level of countries like Hungary, Slovenia or Croatia). Our results generally confirm those of other empirical studies on similar groups of countries (Mencinger *et al.*, 2014; Mencinger *et al.*, 2015).

Table 3 - Effects of public debt on short-term economic growth for different CEEC groups

	Model (7) Romania and Bulgaria	Model (8) CEECs (Romania and Bulgaria excluded)	Model (9) Euro area CEECs
public_debt ²	-0.00285*** (0.000423)	-0.00489*** (0.000989)	-0.00402 (0.00282)
public_debt	0.241*** (0.0617)	0.500*** (0.113)	0.460** (0.226)
L.lnY	-8.656* (4.698)	-15.55*** (2.618)	-15.60*** (2.770)
population	-3.645*** (1.164)	-0.683 (0.636)	-0.964 (0.784)
fixed_capital	0.350 (0.220)	0.776*** (0.150)	0.802*** (0.169)
openess	0.0766 (0.0707)	0.138*** (0.0273)	0.136*** (0.0327)
budget_balance	1.023** (0.439)	0.423*** (0.124)	0.639*** (0.158)

	Model (7) Romania and Bulgaria	Model (8) CEECs (Romania and Bulgaria excluded)	Model (9) Euro area CEECs
free_index	3.144 (2.285)	-3.365*** (1.038)	-2.897** (1.266)
N	34	146	84
adj. R ²	0.388	0.509	0.576
maximum_debt	42.27	51.07	57.27
HansenPval	0.1923	0.6731	0.4988

Notes: Standard errors between parentheses; heteroskedasticity and autocorrelation robust standard errors. Maximum_debt – the maximum value of the quadratic model in public debt ($\text{maximum_debt} = \frac{-\delta_1}{2\delta_2}$). Levels of significance: * $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$.

Source: authors' calculations

To see if there are significant differences among Central and Eastern European countries, models (7) to (9) in table 3 evaluate the effects of public debt on short-term economic growth rates for different country sub-groups, among which Romania and Bulgaria (the less developed EU Member States) and the five Eurozone Central and Eastern European Countries (namely Estonia, Latvia, Lithuania, Slovak Republic and Slovenia), currently classified as developed countries. The results highlight a lower than average debt-to-GDP turning point for Romania and Bulgaria (of about 42% of GDP) and higher for the Central and Eastern European countries that currently are using euro (of about 57% of GDP), although in the case of the later the coefficient of the *public_debt2* variable is not statistically significant. So, the level of development is relevant for the maximum debt threshold, less developed countries affording lower debt-to-GDP ratios.

Public indebtedness may have positive effects on economic growth (subject to keeping debt within acceptable limits) either by demand stimulation, with impact on short-term economic growth, either by its contribution to higher (debt financed) public investments, with impact on the productive capacity of a nation and thus on long-term economic growth. From this point of view, it should be noted that the Central and Eastern European countries that joined the European Union during 2004-2013 indebted themselves to finance major public investment programs, especially infrastructure ones aimed at narrowing the development gaps compared to other EU Member States. Some studies of the European Commission confirm, in this regard, that public expenditures with gross fixed capital formation, with a more direct contribution to economic growth, are more important in the new EU Member States, most of them from Central and Eastern Europe, as result of the catching-up process (European Commission, 2012, p. 10). However, for some of these countries the efficiency of public spending on such destinations is quite low.

Our study also confirms that, once public debt exceeds a certain threshold, its effects on the GDP growth rate are predominantly negative. Given the European realities of recent years, it results that a large public debt raises concerns about its sustainability and the future stance of monetary and budgetary policies, fueling a general climate of mistrust, with negative impact on private savings and investments and, thus, on economic growth. The lack of confidence in public



authorities' ability to honor their debts without resorting to severe budgetary adjustment measures, possibly by increasing tax rates or introducing new taxes, can also entail the reduction of capital inflows in the affected country or even the increase of capital outflows, issue particularly important for countries that have eliminated restrictions on the free movement of factors of production, as is the case of our countries, members of the European Union. At the same time, when public debt rises above a certain level, it can lead to an increase in interest rates in the financial market, thus limiting the access of private agents to financial resources and leading to lower private investment and capital accumulation (Roman, 2009).

The negative impact of high public debt on GDP growth rates may also occur as governments are forced to adopt severe fiscal consolidation measures, either by increasing taxes or to cutting down public expenditures with possibly more favorable impact on economic growth, such as investment spending. This reaction has been confirmed in recent years in many of the Central and Eastern EU Member States with more consistent public debts and negative budget balances (European Commission, 2012; Dornean, 2012). For example, in Czech Republic, the reduction of the negative budget balance from 5.5% to 1.3% of GDP during 2009-2013 was accompanied by the reduction of public investment from 5.5% to 3.4% of GDP. In Poland, the reduction of the budget deficit from 4.9% of GDP in 2011 to 4.0% in 2013 was accompanied by a greater reduction of capital expenditures, by 1.8% of GDP. Also, in Romania, the negative budget balance was cut down from 8.9% of GDP to 2.2% of GDP during 2009-2013, while capital expenditures were reduced from 6.0% to 4.6% of GDP (European Commission, 2014).

The results of our study indicate that the debt-to-GDP turning point for Central and Eastern EU Member States, of about 45-55% of GDP (depending on the time framework of the analysis and country sub-groups), is lower than the one identified in the literature for other, more developed countries, such as the euro area countries. In this regard, recent empirical studies on the situation of developed countries, as those of Reinhart and Rogoff (2010a, 2010b), Checherita and Rother (2010), Baum *et al.* (2012), Mencinger *et al.* (2014) or Mencinger *et al.* (2015), identify a maximum public debt-to-GDP threshold of about 90-100% of GDP. One possible explanation comes from the fact that the group of countries included into our analysis also consists of developing economies, enjoying lower credibility compared to the developed ones from potential lenders, investors, etc., which makes the negative effects of a large public debt to appear sooner. At the same time, developing countries are more vulnerable and depend, to a large extent, on foreign capital for development.

Conclusions

The analysis of the impact of public indebtedness on economic growth conducted for 11 Central and Eastern EU Member States and over the period 1994-2013 confirmed the existence of an "inverted U-shape" relationship between public debt and GDP per capita growth rate, with a debt-to-GDP turning point of about



45-55% of GDP. Once this threshold is breached, a further increase in public debt is expected to negatively affect economic growth, due to increasing interest rates, the concerns about the lack of sustainability of public debt and, more generally, of fiscal policy, or to the severe budgetary consolidation measures.

However, compared to the results of other empirical studies on more developed countries (such as euro area Member States) the threshold appears to be much lower for Central and Eastern European countries. One possible explanation comes from the fact that they enjoy lower credibility, higher vulnerability to various shocks and depend to a greater extent on capital transfers from abroad for development.

Our results suggest that public authorities from the Central and Eastern European countries with high public debts (over the identified limits) should take action towards ensuring fiscal sustainability and cutting down debt, thus supporting for both short-term and long-term economic growth. Enforcing national fiscal rules imposing lower debt thresholds than the one of the Treaty of Maastricht, of 60% of GDP, could be the rationale path to follow.

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Annexes

Annex 1 – Description of the variables and data sources

Symbol	Name	Description	Data sources
<i>Dependent variable</i>			
y	Economic growth	GDP per capita growth rate (annual %)	World Bank (World Development Indicators)
<i>Explanatory variables (baseline model)</i>			
public_debt	Public debt	General government gross debt (% of GDP)	International Monetary Fund (Historical Public Debt Database), completed with International Monetary Fund (World Economic Outlook) for 2013 (all countries) and 2000 (Bulgaria)
Y	GDP per capita	GDP per capita (constant 2005 USD)	World Bank (World Development Indicators)
population	Population growth	Population growth (annual %)	World Bank (Health, Nutrition and Population Statistics)
openess	Openess of the economy	Sum of imports and exports of goods and services (% of GDP)	World Bank (World Development Indicators), completed with AMECO for Hungary, Latvia, Lithuania, Slovak Republic and Slovenia (2012 and 2013)
fixed_capital	Fixed capital formation	Gross fixed capital formation (% of GDP)	World Bank (World Development Indicators), completed with AMECO for Hungary, Latvia, Lithuania, Slovak Republic and Slovenia (2012 and 2013)
budget_balance	General government budget balance	General government net lending/borrowing (% of GDP)	International Monetary Fund (World Economic Outlook Database) completed with AMECO for Bulgaria (1994-1999), Estonia (1994), Latvia (1994-1997), Lithuania (1994-1999), Poland (1994), Romania (1995-1999) and Slovak Republic (1994-1996)
free_index	Freedom House index (proxy variable for the degree of economic freedom)	Freedom House index (average value of civil liberties and political rights ratings)	Freedom House (Freedom in the World Report)
<i>Explanatory variables (robustness control)</i>			
exchange	Real exchange rate	Real effective exchange rate index (2010=100)	World Bank (World Development Indicators) and AMECO for Estonia, Latvia, Lithuania and Slovenia
inflation	Inflation rate	Inflation, GDP deflator (annual %)	World Bank (World Development Indicators)
interest	Interest rate	The lending interest rate (%) (the bank rate that meets the short- and medium-term financing	World Bank (World Development Indicators)



Symbol	Name	Description	Data sources
		needs of the private sector)	
gov_expenditures	Budgetary expenditures	General government expenditures (% of GDP)	International Monetary Fund (World Economic Outlook Database) completed with AMECO for Bulgaria (1995-1999), Croatia (2001), Latvia (1995-1997), Romania (1995-1999) and Slovak Republic (1995-1996)
gov_revenues	Budgetary revenues	General government revenues (% of GDP)	International Monetary Fund (World Economic Outlook Database) completed with AMECO for Bulgaria (1995-1999), Croatia (2001), Latvia (1995-1997), Romania (1995-1999) and Slovak Republic (1995-1996)
credit	Domestic credit	Domestic credit provided by financial sector (% of GDP)	World Bank (World Development Indicators)
school_enr	Secondary school enrollment	Gross secondary school enrollment (%)	World Bank (World Development Indicators)

Source: the authors

Annex 2 - Robustness check

	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)	Model (6)
public_debt ²	-0.00287*** (0.000515)	-0.00237** (0.00108)	-0.00291** (0.00116)	-0.00371*** (0.000602)	-0.00271*** (0.000468)	-0.00283*** (0.000479)
public_debt	0.332*** (0.0613)	0.265*** (0.0997)	0.323*** (0.102)	0.396*** (0.0644)	0.304*** (0.0611)	0.290*** (0.0648)
L.lnY	-19.03*** (2.918)	-14.78*** (2.142)	-15.18*** (2.047)	-14.49*** (1.735)	-12.14*** (3.142)	-18.14*** (2.240)
population	-1.449*** (0.549)	-1.459*** (0.561)	-1.411** (0.552)	-1.253** (0.579)	-1.529*** (0.544)	-1.064* (0.571)
fixed_capital	0.776*** (0.121)	0.660*** (0.122)	0.714*** (0.117)	0.690*** (0.118)	0.725*** (0.128)	0.678*** (0.114)
openess	0.153*** (0.0258)	0.136*** (0.0282)	0.145*** (0.0263)	0.134*** (0.0219)	0.143*** (0.0259)	0.165*** (0.0260)
budget_balance	0.412*** (0.121)	0.525*** (0.136)	0.452*** (0.119)		0.414*** (0.138)	0.491*** (0.129)
free_index	-2.162** (0.880)	-2.109** (0.913)	-2.203** (0.829)	-1.149 (0.832)	-1.961** (0.867)	-2.357*** (0.906)
exchange	0.0644* (0.0381)					
interest		-0.0257 (0.0232)				
inflation			-0.000163 (0.00297)			
gov_expenditures				-0.612*** (0.129)		
gov_revenues				0.0853 (0.157)		
credit					-0.0381	

	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)	Model (6)
	(0.0305)					
school_enr	0.188** (0.0743)					
<i>N</i>	180	161	180	178	175	168
adj. R^2	0.504	0.516	0.500	0.542	0.502	0.547
maximum_debt	57.94	55.99	55.58	53.28	56.10	51.36
HansenPval	0.9326	0.3037	0.9508	0.8431	0.9752	0.9477

Notes: Standard errors between parentheses; heteroskedasticity and autocorrelation robust standard errors. Maximum_debt – the maximum value of the quadratic model in public debt ($\text{maximum_debt} = \frac{-\delta_1}{2\delta_2}$). Levels of significance: * $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$

Source: authors' calculations



THE MACRO-REGIONAL FRAMEWORK AND DIVERSITY IN EUROPE

Florin Teodor BOLDEANU*, Madalin Sebastian ION**

Abstract: *The economic crisis has had serious consequences regarding many aspects of the economic and social life in the European Union, most of all affecting equality, regional convergence and employment. Differences between countries are more and more visible and euro skepticism is at its highest level. The new perspective for the European Union is to close the gaps between regions and also to create better economic cooperation. The proposed Juncker plan will be an important step in revitalizing the European economy by creating new investment projects with a key subject being innovative sectors. Also the new role of macro-regions in European territorial cooperation is very crucial for the future of the EU as a big player on the economic stage. This article aims at highlighting the differences between the European regions (e.g. Baltic Sea Region, Danube Region and Alpine Region) and offers some solutions so that economic cooperation can improve.*

Keywords: macro-regions; divergence; convergence; innovation; cooperation

Introduction

Failing to exit the crisis brings many poisons, economic, social and political. Unemployment is at high levels, inequality is rising, and convergence between European regions that was once the rule is no longer occurring. Pressure on wage and the need to restore internal balances between countries is fuelling deflation. Debt deleveraging, private or public, is far from accomplished and the prospect of falling prices may be the mechanism by which stagnation is perpetuated. The European project of a prosperous and inclusive society is going to sink if we fail to rebound (Timbeau, 2015).

This article highlights the important steps in creating a more integrated European economy by adopting key regional programs to foster growth. European cooperation will be better accomplished if macro-regional development will play a key role in the future. The implementation of new strategies for poorer regions can help convergence, foster innovation and also can offer benefits for citizens. Schuh

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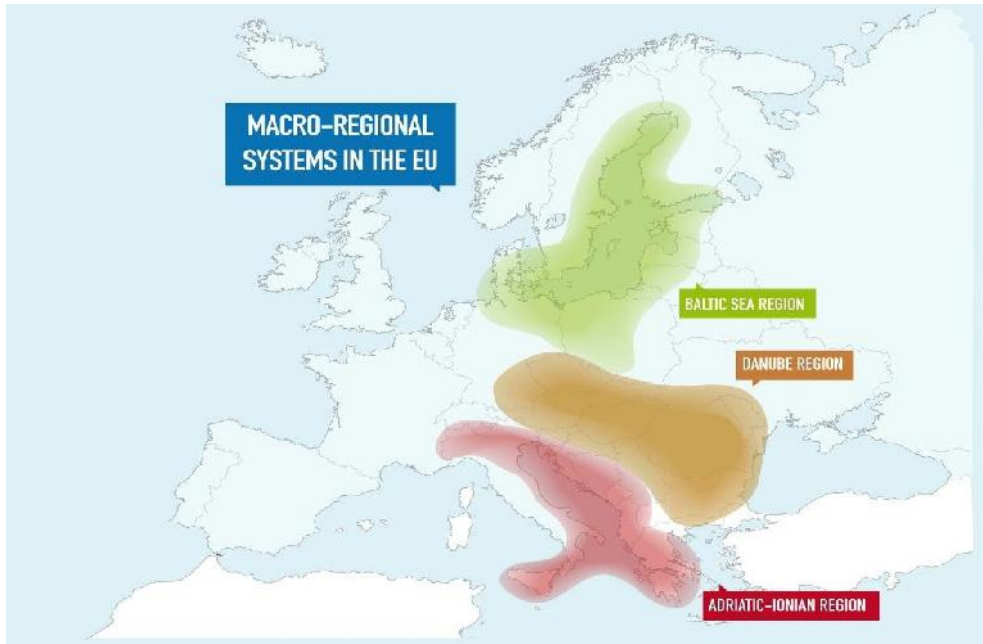
et al. (2015) affirms that macro-regional strategies are instruments both for Regional Policy and also for Foreign Policy.

A macro-regional strategy can benefit not only European Union states, but also the third party states that are in the same geographical area. By this they can achieve future integration to the EU much more effectively and easier by endorsing economic growth and social and territorial cohesion. Also we should include the private sector amongst the key contributors for the implementation of macro-regional strategies, even if the frameworks are based only on existing instruments. Until now the European Council and the European Structural and Investment Fund are the main financial pillars for these types of projects.

1. Literature review

The European Union by its legislative body, the Council of the EU, has already adopted 3 macro-regional strategies and plans to implement in the future 6 others (Alpine Region, Carpathian Region, North Sea, Black Sea, Arctic Sea and Western and Eastern parts of the Mediterranean Sea). The main strategies of the EU are concentrating now on implementing better cooperation in the Baltic Sea Region, the Danube Region and the Adriatic-Ionian Region.

Figure 1. The 3 Macro-regional frameworks adopted in the European Union



Source: *EU Strategy for the Adriatic and Ionian Sea Region – Concept and backgrounds*, available at <http://www.regions.eu.org>



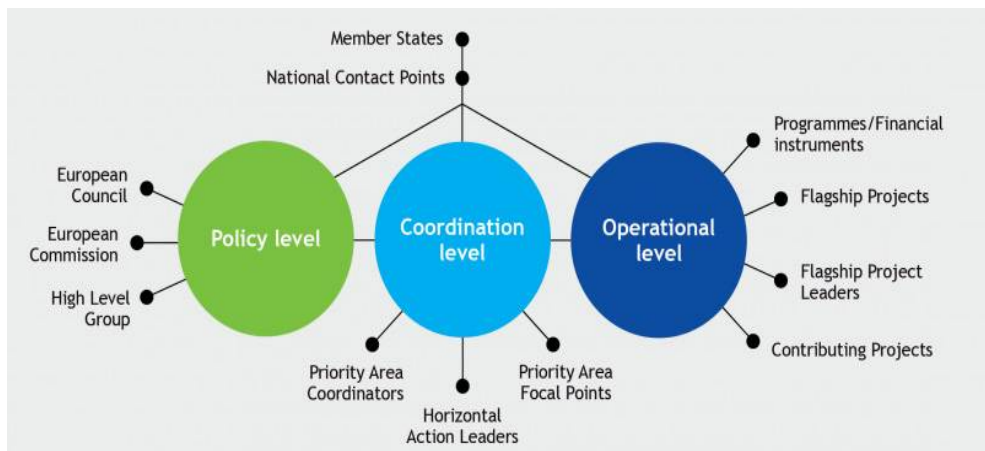
The forerunner for the other macro-regional programs is considered the Baltic Sea Region. The structure of this strategy was based on a combination of many pre-existing Baltic programs. The elaboration and implementation of the strategy took three years (2007-2009) to be accomplished, but because of the world economic context it had to be adapted after the 2010 (Bohme, 2013).

In November 2005 there was a report submitted by the Baltic Strategy Working Group to the presidents of the European Parliament and of the European Commission and to the presidency of the Council of the European Union that highlighted the importance of adopting a new strategy for the Baltic Sea Region – the European Union Strategy for the Baltic Sea or EUSBSR (Beazley *et al.*, 2005). The main fields of cooperation for the states in the region would be environment, economic development, culture and education and security. Also better cooperation between the Baltic countries will be helpful for achieving the strategies of the Northern Dimension.

EUSBSR was adopted in 2009 by the Council of the European Union with the operational coordination held by the European Commission and the member states National Contact Points from the 11 member states – Finland, Latvia, Sweden, Denmark, Lithuania, Germany, Poland, Estonia, Russia, Norway and Belarus. EUSBSR didn't create a new institution, new legislation and the funds that are mobilized are largely covered by existing instruments (Bengtsson, 2009; European Commission, 2009). Organizations such as the Nordic Environmental Development fund, the Nordic Investment Bank, the Nordic Environmental Financial Corporation and the Northern Dimension Environmental Partnership are among some of the institutions that are mobilizing funds for the EUSBSR projects. Also the European Investment Bank is involved in some endeavors.

To simplify the governance system of EUSBSR we are highlighting the framework in figure 2.

Figure 2. Governance system of the EUSBSR

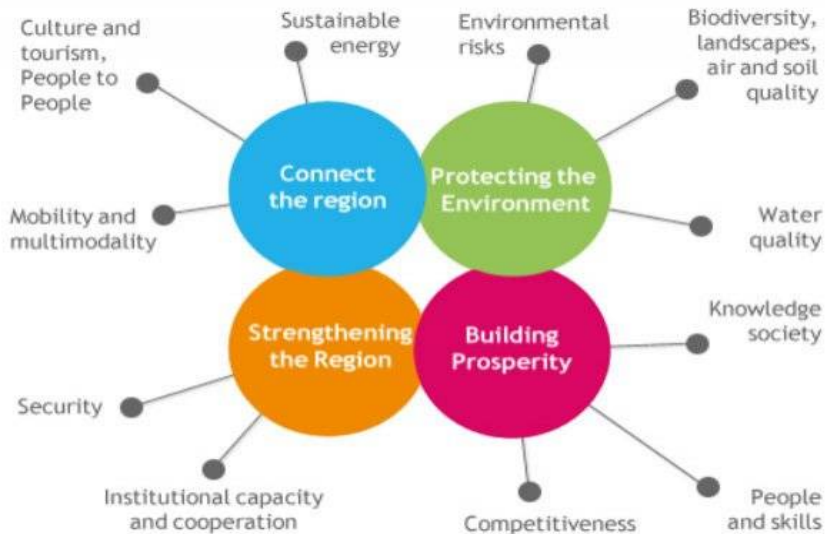


Source: *EU Strategy for the Baltic Sea Region Governance*, available at:
<http://www.balticsea-region-strategy.eu/governance>

The current crisis in Ukraine had a significant impact on the relation between the member states of the EUSBSR and Russia, but it is still a partnership that must continue and hopefully the tensions will disappear. The added value of the EUSBSR is that it increased transnational cooperation and improved the visibility for transnational initiatives. Also the strategy may have socio-economic and environmental influences in the macro-region, but these are hard to calculate at this time. From its adoption in 2009, the strategy has already implemented more than 100 flagship projects. The EUSBSR has in the future some specific objectives regarding clean water, safe shipping, better cooperation, fighting cross-border crime, climate change, etc. It has also a time horizon till 2030 (EUSBSR, 2013).

The second macro-regional strategy adopted by the European Union was for the Danube Region. It was initiated and lobbied by Austria and Romania since 2008 and adopted by the Council on 17 February 2011. The main motivation for the Danube Strategy is to solve environmental problems (e.g. floods) and transport challenges. It has 4 pillars and 11 priority areas. Each priority area is managed by 2 Priority Area Coordinators (PACs). The pillars and priorities can be seen below:

Figure 3. Pillars and priority areas of the EUSDR



Source: *Danube Region Strategy – Priorities*, available at: <http://www.danube-region.eu/about/priorities>

The EUSDR is comprised of 9 EU member states (Germany, Austria, Hungary, Czech Republic, Slovak Republic, Slovenia, Bulgaria, Romania and Croatia), 3 accession countries (Serbia, Bosnia and Herzegovina and Montenegro) and 2 third countries (Moldova and Ukraine). The area covered by the EU Strategy for the Danube Region stretches from the Black Forest (Germany) to the Black Sea (Romania-Ukraine-Moldova). It is home to 115 million inhabitants. This region has struggled with turbulent economic and political events like the 2008 economic



crisis and the Ukraine crisis that is still a big issue today (Schuh *et al.*, 2015). It is also a link between Western Europe and Eastern European and a big river transportation connection. Also the Black Sea is linked with the Atlantic Ocean and the North Sea by the Rhine–Main–Danube Canal. The strategy has a vast network of already existing transnational cooperation bodies like the Stability pact for South Eastern Europe, Southeast European Cooperative Initiative, Danube Cooperation Process and others. The EUSDR has at political level (the leadership) the European Commission (the DG Regional Policy) and High level groups/National Contact Points. At operational level we find the priority area coordinators and the steering groups. Financial support can be mobilized from cohesion funds, structural funds, sectoral and national resources, international financial institutions, private banks and donors. More than 400 projects have been identified for the EUSDR, with 150 already in implementation. The total sum of these projects is 49 billion Euros. About 30% of them have been governed by Private-Public Partnerships, 29% by public organizations, 26% by NGOs and 14% by Universities and research institutions (Schneidewind, P., Hahn, M., Radzyner, A., 2012).

The third macro-regional strategy of the EU was adopted last year in October. It has in total 8 countries with 4 EU Member states (Croatia, Greece, Italy and Slovenia) and 4 non-EU countries (Albania, Montenegro, Serbia and Bosnia-Herzegovina).

The general objective of the Strategy is to promote sustainable economic and social prosperity in the Region. This will be achieved through growth and jobs creation, and by improving its attractiveness, competitiveness and connectivity, while preserving the environment and ensuring healthy and balanced marine and coastal ecosystems. It will thereby also contribute to bringing Western Balkan countries closer to the EU by offering them opportunities for working closely with Member States, to address common challenges and opportunities specific to the Region (European Commission, 2014a).

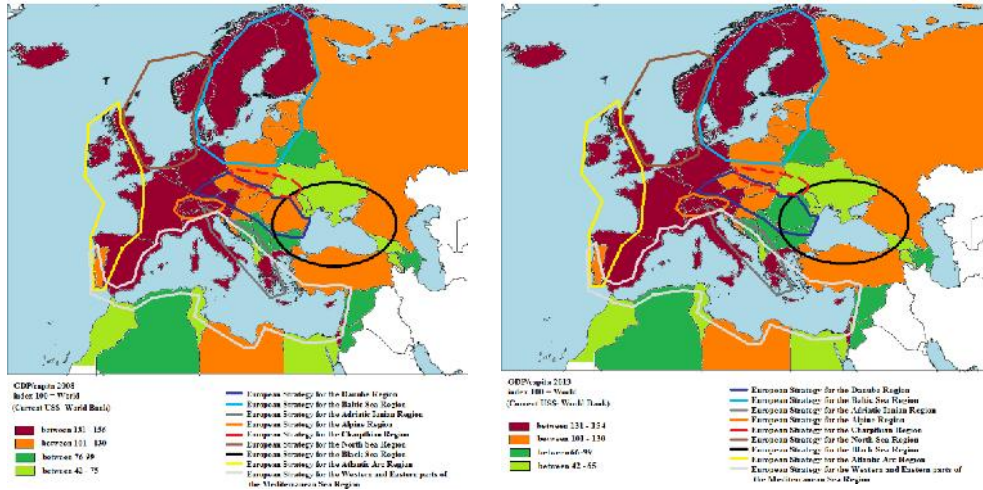
The region has great socio-economic and institutional imbalances between member states. This strategy has to have strong cooperation with the EU institutions, especially the know-how of the European Commission. Some good knowledge can be drawn up from the previous two strategies. The implementation of the EUSAIR is a delicate process because of the large proportion of non-EU countries compared with the EU member states. The main sectors of interest in which the EUSAIR wants to improve are fishery, maritime affairs, transport, environment, tourism, regional development, science, education and sport, competitiveness, energy, labor, agriculture and rural development and blue growth.

2. Macro-regional divergence or convergence

This chapter analyses the unequal development in Europe. The report published by Xavier Timbeau (2014) showed that convergence between European countries and regions is ended since the start of the economic crisis. This has had an impact on inequality in the European Union. For the big economies of Europe

like Germany, Spain, Italy, France and United Kingdom the process of convergence has reversed.

Figure 4. GDP per capita (index 100 = World) in 2008 and 2013 in Europe and the 9 European Macro-regional Strategies



Source: *World Bank*, available at: <http://data.worldbank.org/region/ECA> - edited by the authors

From the above figure it is obvious that there are differences between European counties regarding GDP/capita. Also some European strategies are concentrated in regions that have more developed economies and others that are still in transition. But the framework of these strategies is well balanced. Many countries can benefit by being in more than 2 or 3 European Union Strategies. For example France and Germany are participating in 4 strategies and with their already established networks of NGOs, public and private organizations can help the other countries in the framework. The economic crisis has had a serious effect on the socio-economic make-up of the European countries. We can see from figure 4 that the GDP/capita has dropped for Romania in 2013 compared to 2008.

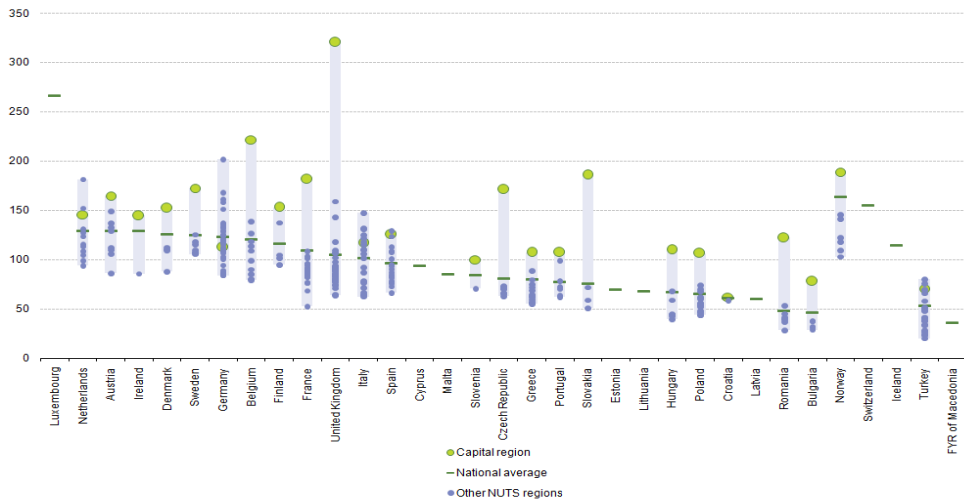
Regional disparity is a serious problem in Europe and in the European Union. From figure 5 we can conclude that many regions in Europe are below the country average. Also, most of them, excluding Germany, are way behind the annual GDP/capita of the capital city. For example London, Paris, Prague, Bucharest, Brussels etc. are cities in which the annual GDP/capita is very high compared with the other regions in the same country. Germany is the only state in which the capital, Berlin, is below the country average. The Netherlands, Germany, Spain, Italy, Turkey are states where disparity between regions is very small.

In December 2012 the European Parliament (European Parliament, 2012) stated that Macro-regional strategies can be used to combat regional disparities and to improve access to better education and to lower unemployment. Also, it can be useful for promoting convergence and cooperation between regions. Like it was stated in the literature review macro-regional strategies will offer added value for the European



Union if they can reduce regional disparities and if they create mutual benefits for all the parties involved (member state and third party countries) (EESC, 2013).

Figure 5. Regional disparities in gross domestic product (GDP) per inhabitant, in purchasing power standard (PPS), by NUTS 2 regions in 2011 (% of the EU-28 average, EU-28 = 100)



Legend: The light purple shaded bar shows the range of the highest to lowest region for each country. The dark green bar shows the national average. The green circle shows the capital city region. The dark purple circles show the other regions.

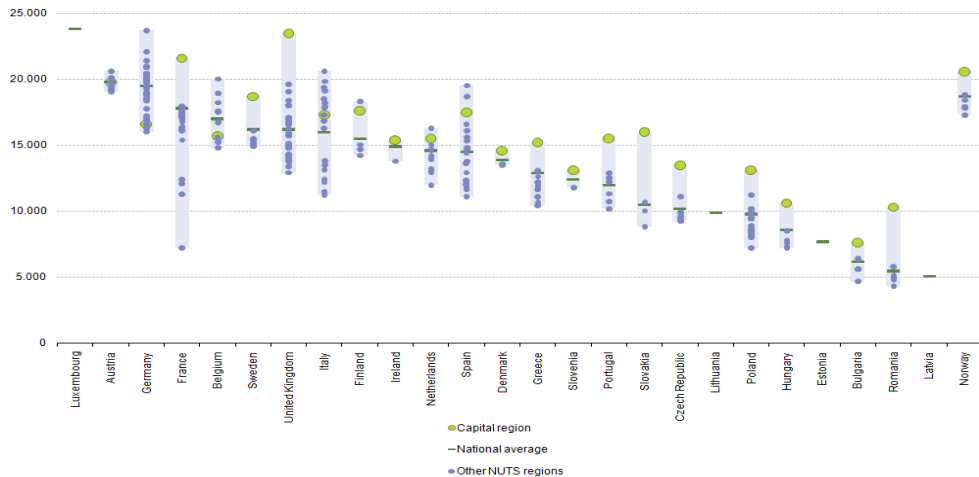
Source: Eurostat Regional Yearbook 2014 edition

From figure 6 we can observe that there is a difference regarding disposable income of private households in contrast with regional disparities in gross domestic product. In Western Europe there are more households that have disposable income above the average compared with Eastern Europe. Also the western capitals are more or less the same regarding this issue. Citizens from Berlin and Brussels are situated below the average of their country.

In Eastern Europe citizens from the capital regions have more disposable income than in the other parts of the country. By this there is a big discrepancy between regions and is a clear sign of inequality.

Until 2008 regional convergence was a key attribute of the EU concept. From figure 7 we can see that Eastern European countries started to catch up to the western countries with high annual GDP growth even if the GDP/Capita was still small. The correlation between GDP/capita and average annual growth is also very strong ($R^2 = 62.8\%$).

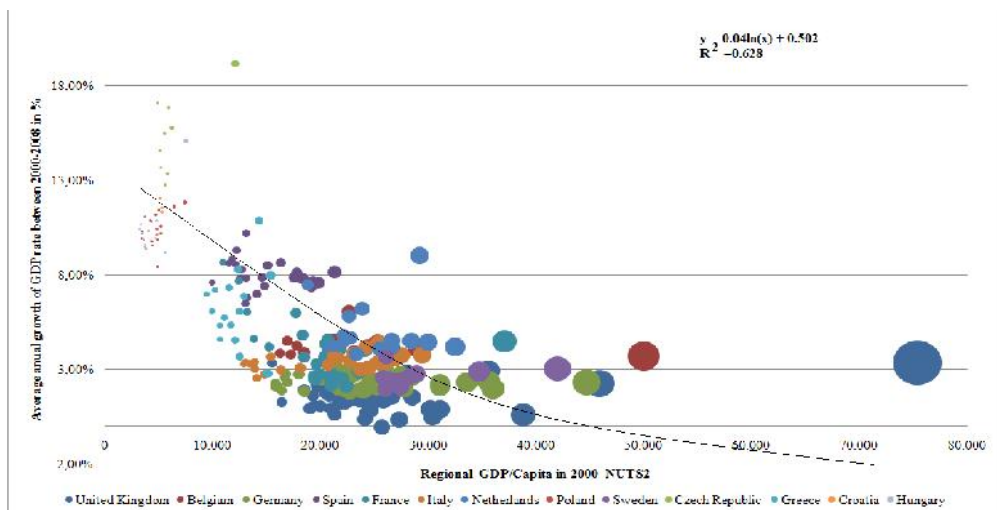
Figure 6. Disposable income of private households, in purchasing power consumption standard (PPCS), by NUTS 2 regions, 2011 (PPCS per inhabitant)



Legend: The light purple shaded bar shows the range of the highest to lowest region for each country. The dark green bar shows the national average. The green circle shows the capital city region. The dark purple circles show the other regions.

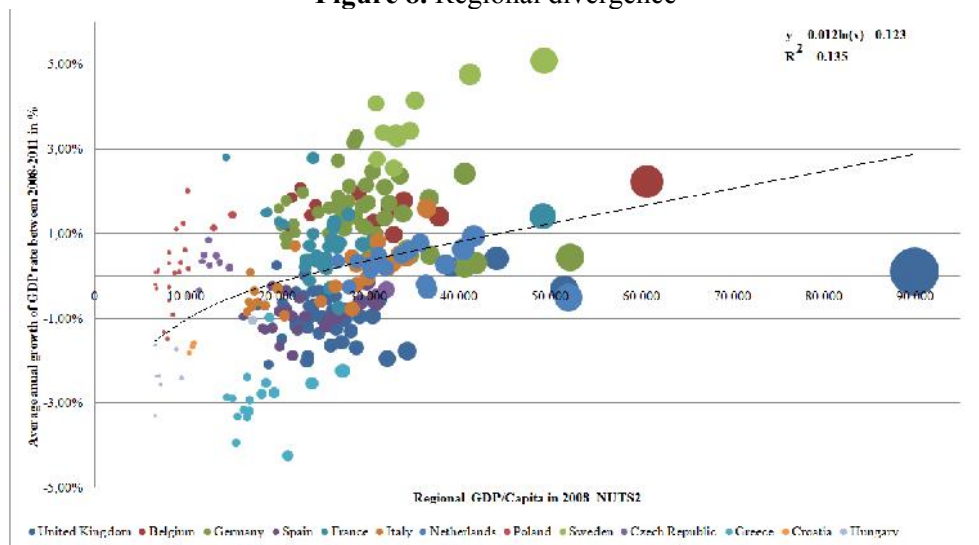
Source: Eurostat Regional Yearbook 2014 edition

Figure 7. Regional convergence



Source: Authors calculations, NUTS 2 Eurostat



Figure 8. Regional divergence

Source: Authors calculations, NUTS 2 Eurostat

Since 2008 regional divergence was felt for most of the states in Europe. The correlation between the two variables in figure 8 ($R^2 = 0.135$) is much weaker than the one in figure 7 ($R^2 = 0.628$). From 2008 onwards regions from Croatia, Greece, Spain, France, and Italy are underperformers regarding GDP growth in the European Union. These negative trends have affected the Euro Area the most. Also from the above figure it is obvious that all Greek regions have negative annual GDP growth since the beginning of the crisis.

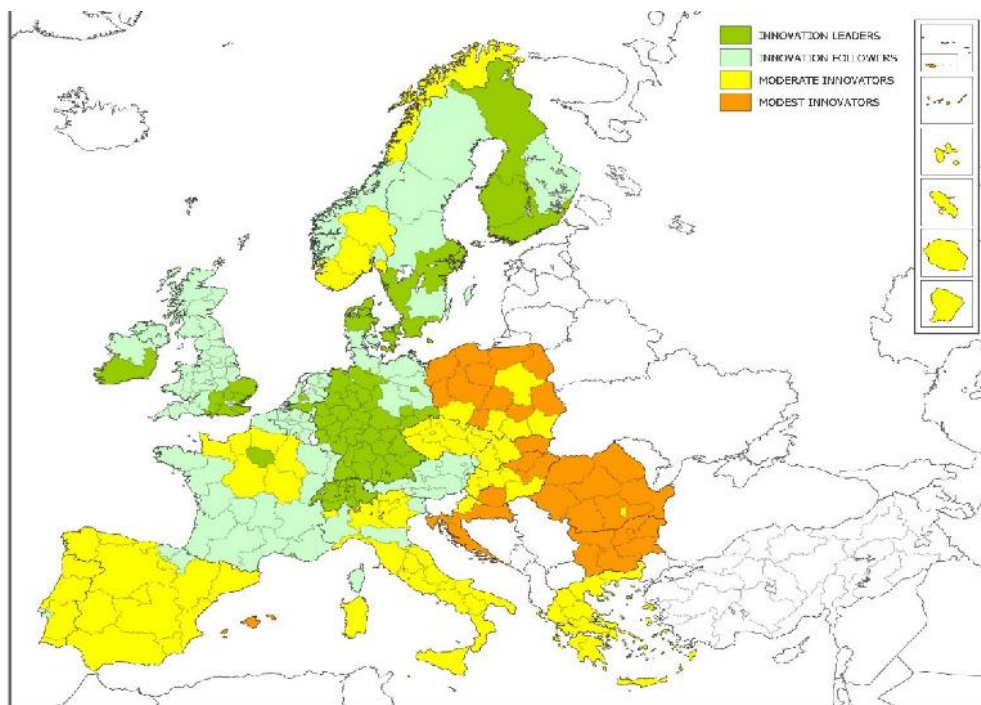
3. Macro-regional innovation

Macro-regional divergence can be observed also regarding innovation. Germany is still the country with the most innovative regions. The proposed Juncker plan will be an important step in revitalizing the European economy by creating new investments with a key subject being innovative sectors. This can be useful for fostering creative centres also in other regions of the EU. The total fund will be 310 billion Euros and states will have to generate added value for the European Union and to lower their unemployment, especially the youth unemployment.

Strong innovative regional centres are in Germany, United Kingdom, Ireland, Sweden, Finland, Denmark, France (only the Paris region) and Switzerland. This demonstrates that only 8 countries excel in the creative field in Europe. Eastern European countries are modest centres of innovation with most regions in Romania, Bulgaria, Croatia and Poland being the weak links. The Czech Republic, Slovakia and Hungary are the only ones that are moderate innovators. There is a difference in innovation between the Western and Northern European

countries and the ones in the South and East. Figure 9 shows the big contrasts regarding innovation in the European Union.

Figure 9. Regional innovation scoreboard for 2014



Source: European Commission, Regional Map Generator

In 2014 Europe has had 34 regions classified as innovative leaders, 57 regional innovation followers, 68 regional moderate innovators and 31 modest innovators (European Commission, 2014b). The lack in innovation in Eastern Europe cannot be blamed on the educational system or that people from these regions are not creative. The modest innovation level in some countries can be also a cause of small or non existing financial support for creative enterprises. Where citizens are encouraged to create with financial support from the private and public sector, innovation will be higher. Also brain hunting can be a cause of reduced innovation in some parts of the European Union.

The new Macro-Regional Strategies can improve cooperation, but also can have an indirect effect on innovation. If the regions are more interconnected and citizens can transfer know-how more efficiently some of the modest innovator states can benefit.

Conclusions

The economic crisis has had serious consequences regarding many aspects of the economic and social life in the European Union, most of all affecting

equality, regional convergence and employment. Differences between countries are more and more visible. The new perspective for the European Union is to close the gaps between regions and also to create better economic cooperation.

Macro-regional transnational cooperation is crucially dependent on the financial resources of the states. A macro-region strategy is best conceived as a complex and heterogeneous network. States that take part in a certain strategy have to pool and bundle resources (financial, logistic, educational, know-how, etc.) together with other states and actors so as to realize the collective capacities of the strategy as a whole.

From this paper we can conclude that Macro-regional Strategies are still implemented in Europe, but the framework (institution, structural cooperation) are already in place. Also the EU still has to overcome big issues like unemployment, possible economic stagnation and regional divergence. Innovation has to be prioritized more and more because it is an important factor at the regional level, as regions are important engines of economic development.

The new role of macro-regions in European territorial cooperation is very crucial for the future of the EU as a big player on the economic stage. If we want to still compete with the USA, the BRICS countries we should have a commune voice (fiscal, political, monetary, regional policies, etc.).

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THE PROPAGATION OF INSOLVENCY AMONG BUSINESS IN ROMANIA

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Abstract: *In the light of the current economic climate, the business insolvency phenomenon gained major attention due to its widespread consequences. Given the broad topic of research, the present study aims to identify whether a domino effect exists among companies filing for insolvency during 2006 - 2013. The interest in this narrow aspect derives from the assumption that default companies propagate shocks throughout the activities of their suppliers, creditors, customers, shareholders, society and the economy. For this purpose, an ARIMA(p,d,q) model has been estimated, as it provides insight on how own lagged values and innovations influence the present occurrence of the phenomenon.*

Keywords: insolvency; ARIMA(p,d,q) model; economic crisis; propagation effect

Introduction

In the current economic context, the risks associated with entrepreneurial activity multiply as a result of the destabilizing factors and uncertainties propagated due to the economic crisis. The impact on business dynamics has been visible worldwide, as the largest economic crisis in the last 80 years, triggered by in the US banking sector in 2007, has inevitably expanded later in an economy characterized by globalization, and the recession of economies was only a matter of time.

As mentioned in the OECD (2009) report, the economic and financial crisis has not only an impact on the cash flow and demand in goods and services of business, but also generated a cut back in credit financing and financing in general, both by financial institutions or by alternative financing sources, undermining existing enterprises alike discouraging formation of new business. However, other determinants, except market conditions and access to finance, affect business dynamics during economic slowdown, which can be grouped, according to Eurostat report (2012), in 6 major classes (Figure 1). Each factor is being interconnected and acts both as incentives for encouraging entrepreneurial activity and as barriers for entrepreneurial activity.

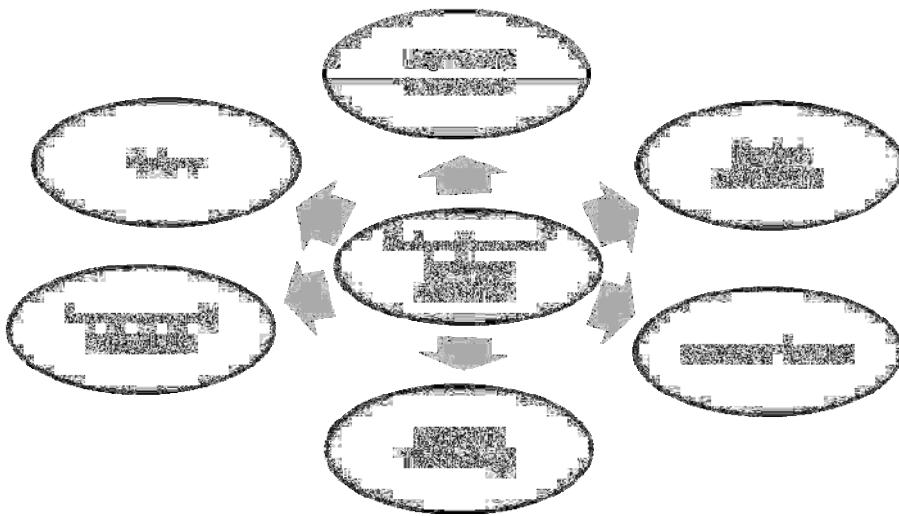
Aterido *et al.* (2009), Loazya *et al.* (2005) consider that the regulatory framework represents a key factor in encouraging and developing a favourable

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business environment, in particular product market regulations and labour market regulations (Scarpetta *et al.*, 2002), represent an important aspect in encouraging a dynamic entrepreneurial climate. Ciriaci (2014) finds that red tape barriers, such as the cost of entry, number of procedures needed to start a business and time needed for the procedures of exporting, influence the firm entry dynamics. Klapper *et al.* (2006) also show that entry regulation and the number of entry procedures can have a negative impact on business formation in “high-entry industries”, and that business entry is positively influenced also by the cost of bankruptcy. Moreover, the birth rate of enterprises is higher if the tax rates on corporate income are lower than the tax rates on personal income and if there is access to finance and capital.

Figure 1. Determinants of business dynamics and entrepreneurship



Source: Eurostat (2012)

As mentioned before, factors that may boost the business environment can equally cause major imbalances and destabilize the economic activity of a company. Ooghe and DePrijcker (2008) distinguish five factors that can cause major imbalances at enterprise level, even bankruptcy. Three of these factors refer to micro- level peculiarities of the companies, like the characteristic of the management, the corporative policy and the characteristics of the company (size, year of activity, industry, structure of shareholders, etc.), while two features relate to the proximity of the company and the economic environment in which the company is active. Liu (2004) shows that macroeconomic environment and insolvency regulation can act as determinants of corporate failures; both on the long run and short run an increase of the interest rate and inflation cause a raise in corporate business failure. Access to credit and birth rate of enterprises determine on the short run a drop in rate of companies filing for insolvency, but on the long run an increase. Similar results reports also Platt and Platt (1994) who show that prime interest rate, labour costs and new business formation rate are positively



correlated with business failure, and growth rate in profits and employment are negatively correlated.

In the framework of business dynamics, business failure comes as a natural event, along with business formation and business survival. According to McKenzie and Lee (2003) and Ciriaci (2014), business failure is both an output and an input of the economic activity. In general, through business failure, defined in this article as insolvency, companies that are not able to use their resources optimally exit the market, leaving space for more competitive business that have a greater capacity to use their resources so as to produce a greater added value.

Though, economic distress has negative repercussions not only for those companies which were not viable or competitive in a given economic context, but also produces collateral damage among companies which survive.

Edison *et al.* (1998) consider that during economic slowdown, prudent companies – defined as companies which “partly levered”, have the necessary resources to overcome the initial shock, however when faced with shocks coming from imprudent firms – “fully levered”, their stability could be put on great risk. Such a case may account for a domino effect, defined by the authors as the collapse of companies which triggers “a fall in asset values sufficient to overwhelm prudent firms and force them into liquidation” (Edison *et al.*, 1998). According to Cheung and Levy (1998), there is also evidence that the bankruptcy phenomena is characterized by the “domino effect”, as they identified an existing correlation between the bankruptcy rate among industries. Gatti *et al.* (2009) argue that insolvency of one economic agent can propagate throughout the market, and that the impact is correlated with the size of the agent and the connections it has with other agents within the network. Nevertheless, an increase in business failure can be absorbed by the network, depending on “the amount of bad debts” (Gatti *et al.*, 2009). This is also supported by Stiglitz and Gallegati (2011) who show that insolvency of a business, whether SME, large enterprise or financial corporation, could lead to distress of other actors in the economy, if the shock generated is too strong and cannot be absorbed by the network – defined by the authors as consisting of 3 level structure, households, enterprises and financial institutions, in particular banks. If the insolvent company is highly interconnected within the network, than systemic risk could occur. Also, Daianu *et al.* (2004) mentioned that bankruptcy affects not only the creditors, but also employees, shareholders, customers, etc., thus we can assert that the propagation of shocks is extends much wider than the network of economic agents.

One important aspect which this paper brings into discussion is the propagation effect of insolvency. The domino effect, or insolvency avalanches, although analyzed within this paper only at aggregate level, has repercussions in the national context both on macro- and microeconomic level, alike within and among economic sectors of activities. Hence, the purpose of the present study is to determine whether a propagation of insolvency can be identified in Romania, in particular if a domino effect exists among companies filing for insolvency. This is done using time series analysis, for a monthly time series from January 2006-December 2013.



In order to facilitate better understanding of the analysis, we consider relevant to make a brief review on the role of the insolvency law and the definition of business insolvency, which is also used in the current analysis, then continue with presenting the research methodology and discuss the results of the analysis.

1. Review on the role of the insolvency law and definition of business insolvency

The Insolvency Laws are heterogeneous both worldwide and in Europe, however according to the World Bank report (2011) all systems should aspire to achieve 11 aims and objectives, such as:

“(i) integrate with a country’s broader legal and commercial systems; (ii) maximize the value of a firm’s assets and recoveries by creditors; (iii) provide for the efficient liquidation of both nonviable businesses and businesses whose liquidation is likely to produce a greater return to creditors and reorganization of viable businesses; (iv) strike a careful balance between liquidation and reorganization, allowing for easy conversion of proceedings from one proceeding to another; (v) provide for equitable treatment of similarly situated creditors, including similarly situated foreign and domestic creditors; (vi) provide for timely, efficient, and impartial resolution of insolvencies; (vii) prevent the improper use of the insolvency system; (viii) prevent the premature dismemberment of a debtor’s assets by individual creditors seeking quick judgments; (ix) provide a transparent procedure that contains, and consistently applies, clear risk allocation rules and incentives for gathering and dispensing information; (x) recognize existing creditor rights and respect the priority of claims with a predictable and established process; and (xi) establish a framework for cross-border insolvencies, with recognition of foreign proceedings” (World Bank report, 2011, p. 7).

The Romanian Insolvency Law no. 85/2014 articulates these principles and integrates them, as over the past years efforts has been done to harmonize the Insolvency Law in line with the European Commission recommendations.

According to the above-mentioned law, insolvency is the state of the debtor's assets which is characterized by lack of funds available for creditors' payment. Although it is highly linked to the economic activity, insolvency has legal implications as well, and as mentioned before, currently in Romania, is regulated by the Insolvency Law no. 85/2014.

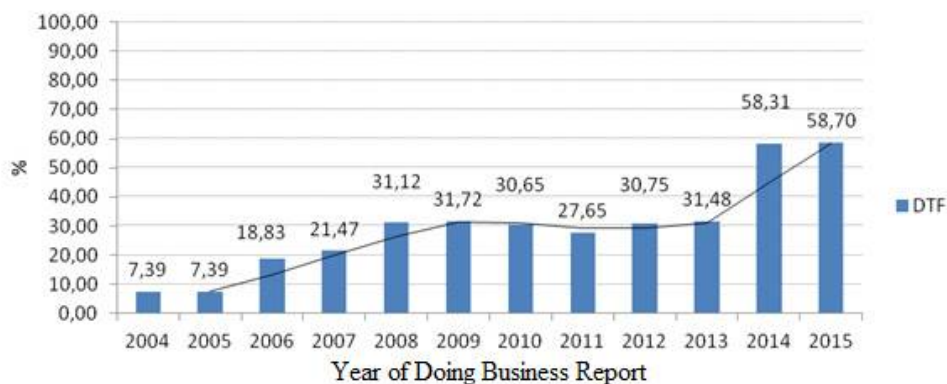
Given the risk and uncertainty conditions in which businesses operate, debt default situation of business can arise. In these circumstances, creditors will seek to regain the capital / assets lent, and because insolvency involves not just one creditor, each one will strive to recover their debts first. This may lead to a division of the company's assets, and thus to a decrease in assets value. Consequently, the insolvency procedure stipulates the process to pay creditors, aiming on one hand to maximize the assets' value so that debts can be recovered by creditors, and on the other hand trying to avoid liquidation of viable business which have transitory cash-flow problems. As stated in the above-mentioned law, the insolvency procedure aims to establish a collective procedure in order “to cover the liabilities



of the debtor, granting, if possible, the chance of reorganization” (Insolvency Law no. 85/2014). As the current insolvency act recognizes the importance of reorganization, it addresses one of the challenges posed by Cirmizi *et al.* (2010), namely to encourage reorganization of viable firms. Thus, a company filing for insolvency can either fall under reorganization or under bankruptcy. The fact that the central role of insolvency proceedings should be to encourage reorganization of viable companies and that such a procedure should ensure a better allocation of resources is also outlined by Daianu *et al.* (2004).

Moreover, the current insolvency law aims also to simplifying the bankruptcy proceedings, in order to reduce the time period of deployment and a reduction of the cost that it entails. Effects of functional procedures can be noticed, according to the Doing Business reports developed by the World Bank. Following the Romanian Insolvency Act no. 85/2006, an improvement of the insolvency process is observed, such as a decrease of the time period needed for business closure, from 4.6 years in the previous years to 3.3 years. Thus, if the time allocated is shorter, the assets of the default companies getting “free of debt” and the reallocation of resources in the economy can be done more quickly and optimally. The same World Bank report shows that although the costs entailed by such a process have increased from 9% of estate to 10.5% in 2014, the rate of recovery has improved from 19.9 cents for a dollar to 30.7 cents in present. According to the same reports, the improvement made by Romania regarding the regulatory framework of business closure can be seen also from the information on the “distance to frontier” defined as the distance (in percent) compared to the best ranked country. Since 2004, the first year for which data are available, a decrease can be notice of the distance to the frontier, which show an improvement of the legal and regulatory framework with respect to market exit of companies.

Figure 2. Distance to frontier for resolving insolvency, Romania



Source: World Bank Group, Doing Business Report, available at:
<http://www.doingbusiness.org/reports>

2. Methodology and dataset

In order to highlight the extent to which the historical values of the aggregate number of insolvencies influence the present values of the variable discussed, the Box-Jenkins procedure has been applied. By estimating an ARIMA(p,d,q) model, we aim to better understand the evolution in the number of insolvencies, by testing the hypothesis that the trend of the studied phenomenon can be explained through a linear combination of own past values and past innovations.

Let Y be the variable of the aggregate number of insolvencies in Romania, and Y_t be the observed value of the variable Y at time t , where $t = \overline{1, n}$ for the timeframe January 2006 to December 2013.

The general ARMA(p,q) model can be written as:

$$\left(Y_t - \sum_{i=1}^p \phi_i Y_{t-i} \right) = \left(\varepsilon_t - \sum_{i=1}^q \theta_i \varepsilon_{t-i} \right)$$

where p represents the order of the autoregressive term and q the order of the moving average term, ϕ_i and θ_i are the parameters of the of AR(p), respectively MA(q), and L^i is the lag operator.

According to Andrei (2008) The Box-Jenkins procedure implies several steps, summarized as follows:

1. Model identification

Testing and computing the stationarity of the time series, determining degree of differencing (d), and identifying the autoregressive and moving average order (p and q) by examining the autocorrelation (ACF) and partial autocorrelation function (PACF). If the time series is not stationary, the series should be transformed to become stationary with $E(Y_t) = \mu$, $Var(Y_t) = \sigma^2$, and $Cov(Y_t, Y_{t-k}) = \gamma_k$.

2. Model estimation

Considering the abovementioned AR and MA order identified, the parameters of the ARIMA(p,d,q) model are estimated.

3. Diagnosis checking

Further tests are done so as to determine if the parameters of the ARIMA(p,d,q) are significant. Also the residuals are examined to test for white noise (with $E(\varepsilon_t) = 0$, $Var(\varepsilon_t) = \sigma^2$, and $Cov(\varepsilon_t, \varepsilon_k) = 0$, where $t \neq k$), whether these are random, uncorrelated so they do not hold additional information for explaining the phenomenon, and normal distributed.

4. Forecasting – by reason of the aim of the present paper, forecast has not been done.

The dataset covers the monthly aggregate number of companies filing for insolvency in Romania from January 2006 to December 2013. The data source is the National Trade Register Office.



3. Evolution of the number of companies filing for insolvency

In the analyzed timeframe, the number of companies falling under the insolvency law has known an ascendant trend, more pronounced beginning with 2008. In 2006 and 2007 on average 428 companies per month, respectively 706 companies have opened the insolvency proceedings, while in 2008 the average monthly number has increased significantly to 1227 companies, as a result of the economic crisis and the economic slowdown. Even though a decrease is noticed in 2011, the number of companies filing for insolvency has an increasing trend and remains greater compared to 2008.

Table 1. Descriptive statistics of number of companies filing for insolvency in Romania, by year

Year	Mean	Max	Min.	Sum.	Std. Dev.
2006	428.3	599.0	161.0	5140.0	138.5
2007	706.8	1312.0	412.0	8481.0	276.4
2008	1227.0	1932.0	319.0	14724.0	435.7
2009	1535.1	2115.0	331.0	18421.0	535.1
2010	1807.7	2170.0	900.0	21692.0	384.1
2011	1637.6	2189.0	562.0	19651.0	528.7
2012	2233.9	2971.0	1536.0	26807.0	454.0
2013	2464.9	3576.0	1028.0	29579.0	688.8

Source: Author's calculations

Looking more closely at the monthly fluctuations, a seasonal pattern can be noticed in August and September (Figure 3), due to the seasonal characteristic of the economic activity. However, the seasonal adjusted time series outlines a decrease in the third quarter of 2009, and in 2011. Possible explanation for such outcomes might be the fact that in 2009 the agreement with the IMF was signed and the first two installments have been made in May and September. The year 2011 was the first year of economic recovery, after the outburst of the economic crisis in 2008, which might have had a contribution to a more entrepreneurship friendly environment, considering the studies which identify a correlation among the evolution of GDP and the rate of bankruptcy or insolvency (Salman *et al.*, 2009; Bunn and Redwood, 2003, Everett and Watson, 1998). Also, in 2011 a new preventive stand-by agreement with IMF has been signed.

Figure 3. Evolution of number of companies filing for insolvency in Romania, raw and seasonal adjusted data

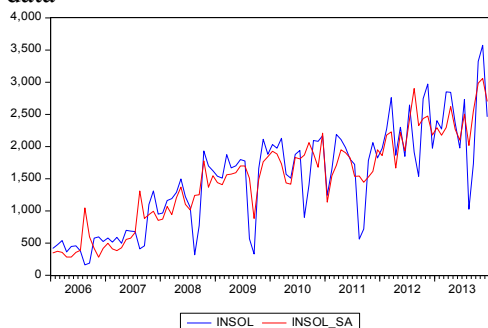
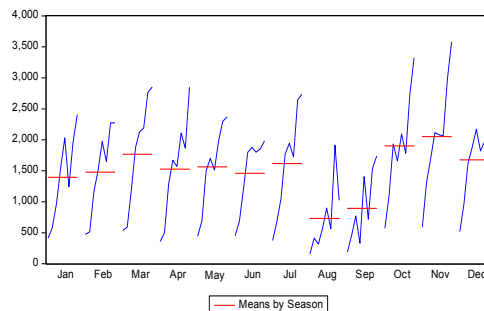


Figure 4. Evolution of number of companies filing for insolvency in Romania, by season

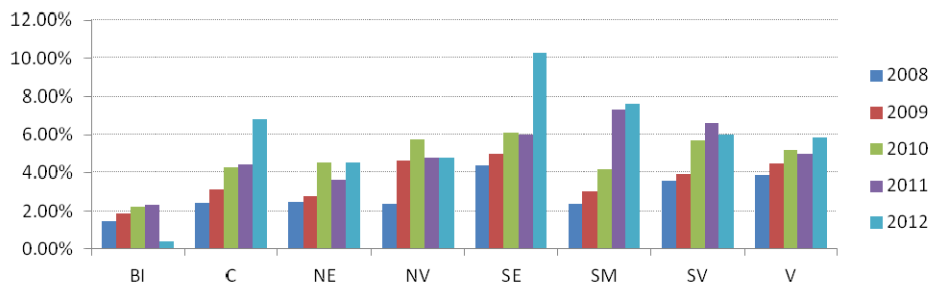


Source: Author's representations

The aggregate number of companies that fall under the Insolvency Law varies also by NUTS II regions. Due to the availability of data, the time span for which the distribution by age and NUTS II region is analyzed is 2008 to 2012. Moreover, for a better comparison at regional level, the insolvency rate has been computed by dividing the number of companies which have opened the insolvency proceedings have been to the number of active companies in the respective regions. The data source for the number of active companies has been the National Institute of Statistics.

At regional level, the insolvency rate varies and is not homogeneous. Compared to other regions, the insolvency rate in Bucharest-Ilfov region is lower; this situation could be explained by the fact that this region solely contributes with over 25% to the Romanian GDP. Most insolvencies, as share of total active companies, are recorded in the South-East region for the entire time period analyzed, except 2011, when the South-Muntenia region recorded the highest rate of insolvencies, with about 60% higher than in 2010.

Figure 5. Number of companies filing for insolvency as share of total active companies in the region, % at regional level



Source: Author's representation



The economic recovery from 2011, this being the first year of economic growth since 2008, is noticeable also from the number of insolvencies recorded at regional level. In most regions there was a decrease in 2011 compared to the previous year, excluding South Muntenia and South-West regions. Furthermore, in 2012 the descending trend persists only in Bucharest-Ilfov region. However, relative to 2008 the phenomenon remains more pronounced, except Bucharest-Ilfov for which the insolvency rate, calculated as the ratio between the companies filing for insolvency and active firms, is significantly less.

Table 2. Rate of change in insolvencies

Region	Base year	2008	2009	2010	2011	2012
BI	Previous year	100.00%	26.89%	9.24%	-3.85%	-82.16%
	Year 2008	100.00%	26.89%	38.62%	33.28%	-76.23%
C	Previous year	100.00%	23.97%	22.62%	-5.05%	58.28%
	Year 2008	100.00%	23.97%	52.01%	44.34%	128.46%
NE	Previous year	100.00%	8.36%	45.06%	-26.04%	27.40%
	Year 2008	100.00%	8.36%	57.18%	16.25%	48.11%
NV	Previous year	100.00%	85.05%	11.12%	-23.39%	5.25%
	Year 2008	100.00%	85.05%	105.63%	57.53%	65.79%
SE	Previous year	100.00%	12.04%	11.24%	-9.74%	76.95%
	Year 2008	100.00%	12.04%	24.63%	12.49%	99.05%
SM	Previous year	100.00%	25.32%	25.49%	63.09%	8.22%
	Year 2008	100.00%	25.32%	57.26%	156.49%	177.57%
SV	Previous year	100.00%	6.80%	34.91%	6.81%	-4.51%
	Year 2008	100.00%	6.80%	44.08%	53.89%	46.95%
V	Previous year	100.00%	12.04%	4.30%	-11.77%	22.16%
	Year 2008	100.00%	12.04%	16.86%	3.10%	25.95%

Source: Author's calculations

The distribution of the number of insolvencies by sectors of activity reveal that most companies which have opened the insolvency proceedings have been active in the manufacturing (20% in 2008 and 13% in 2012), construction (10% in 2008 and 14% in 2012) and wholesale and retail trade (47% in 2008 and 41% in 2012). However, when considering the insolvency rate for each sector of activity, computed as percentage of number of companies in insolvency divided by the number of active companies, the results illustrate a more homogenous distribution, nevertheless Figure 6 shows that sectors of activity such as industry, manufacturing, construction, trade, transport, hotel industry and the real estate transactions have been most hit by the economic crisis.

Figure 6. Number of companies filing for insolvency in Romania, raw data by sector of activity

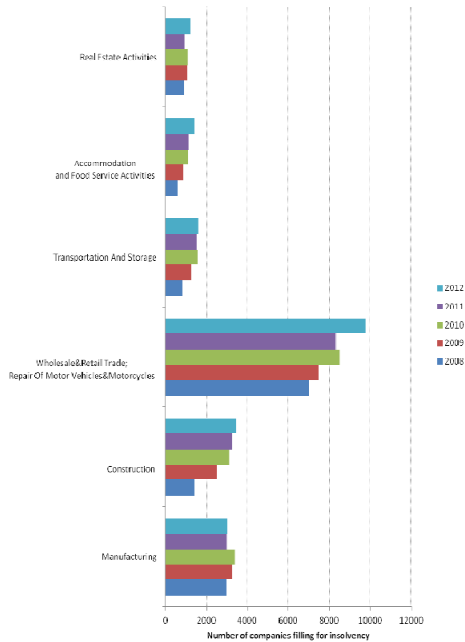
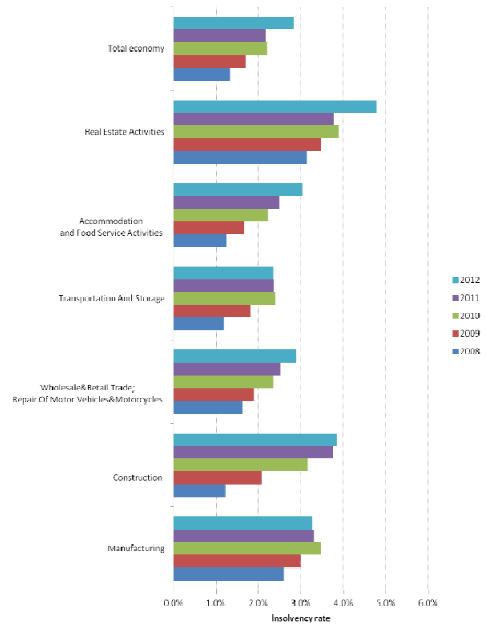


Figure 7. Insolvency rate in Romania, by sector of activity



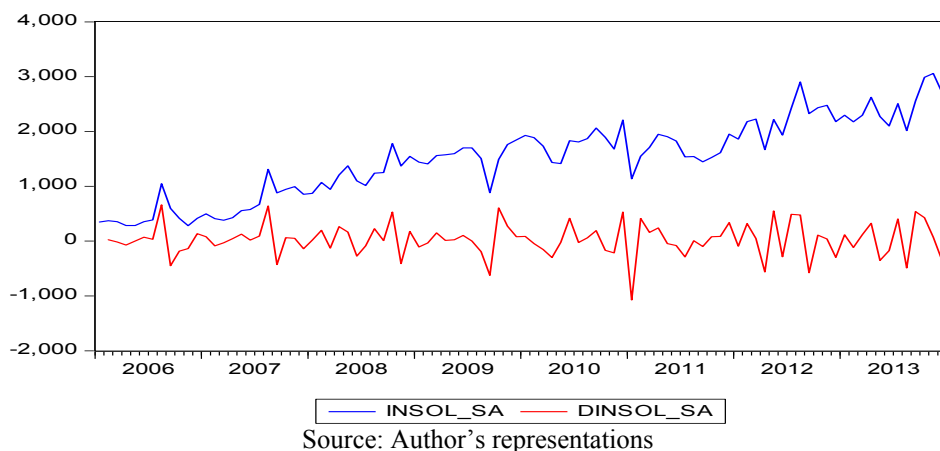
Source: Author's representations

4. ARIMA(p,d,q) model specification

In the following paragraphs all reference to the number of companies filing for insolvency will take into account the seasonal adjusted series.

The first step in specifying the ARIMA(p,d,q) model is to test whether the time series is stationary or not. For this purpose, the ADF test has been applied, with $H_0: a_1 = 1$, meaning that the series is not stationary, with the alternative $H_1: |a_1| < 1$ that it is stationary. Given the fact that ADF test statistic = -1.33, p-value = 0.6091, for $\alpha = 0.05$ we accept the null hypothesis that the seasonal adjusted time series is not stationary and has a unit root. The first order integration of the time series becomes stationary, as the ADF test statistics = -7.807, p-value = 0.0000, for $\alpha = 0.05$.



Figure 8. Seasonal adjusted series and first order integrated series of the number of companies filing for insolvency in Romania

The correlogram of the 1st order integrated time series indicates that the model has both AR (p) and MA (q) terms. Although several models have been estimated, for which the parameters are significant at a significance level of $\alpha = 0.1$, the best model ARIMA(p,d,q) model is an ARIMA(4,1,8), which explains about one third of the variability of the time series analyzed (adjusted $R^2=35.79\%$).

Table 3. Estimated ARIMA(p,d,q) models

Variable	ARIMA(13,1,0)	ARIMA(0,1,8)	ARIMA(4,1,4)	ARIMA(4,1,8)
C	27.243 (2.324)**	24.822 (3.751)***	25.154 (2.027)**	24.981 (4.337)***
AR(1)	-0.498 (-4.623)***			0.161 (1.726)*
AR(2)	-0.231 (-2.241)**			
AR(4)	-0.332 (-3.099)***		-0.591 (-7.028)***	-0.494 (-4.875)***
AR(5)	-0.217 (-1.839)*		-0.165 (-2.024)**	
AR(13)	-0.184 (-1.779)*			
MA(1)		-0.608 (-7.876)***	-0.689 (-29.877)***	-0.857 (-17.925)***
MA(4)		-0.285 (-3.312)***	0.528 (29.518)***	0.345 (7.108)***
MA(8)		0.138 (1.674)*		-0.204 (-3.775)***
Adj. R^2	0.2750	0.2716	0.3532	0.3580
F-statistic	7.146	12.682	13.155	11.036
p-value(F-statistic)	0.0000	0.0000	0.0000	0.0000
Akaike info criterion	14.039	13.958	13.905	13.897

Variable	ARIMA(13,1,0)	ARIMA(0,1,8)	ARIMA(4,1,4)	ARIMA(4,1,8)
Schwarz criterion	14.215	14.066	14.044	14.062
Hannan-Quinn criterion	14.110	14.002	13.961	13.963

*** $\alpha=0.01$, ** $\alpha=0.05$, * $\alpha=0.1$

Source: Author's calculations

Having the ARIMA(4,1,8) model specified, in the next paragraphs the validity of the model is verified by testing if $\varepsilon_i = iid(0, \sigma^2)$.

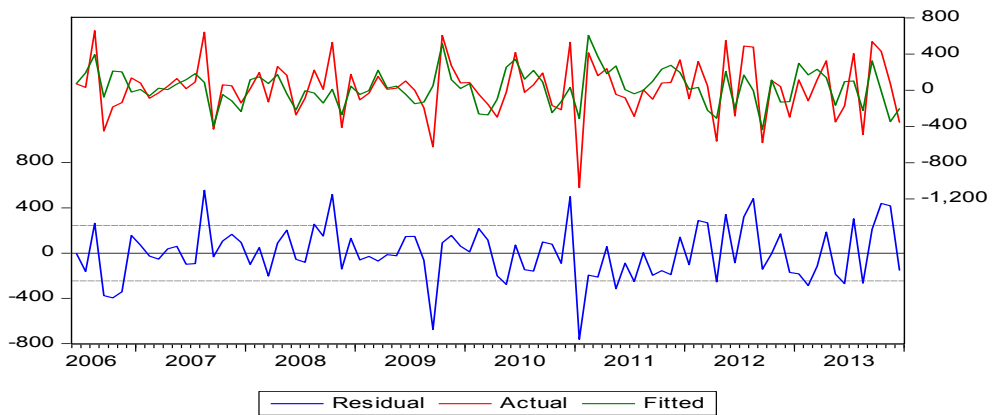
The first order autocorrelation of the residuals has been tested by applying the Durbin-Watson test. The null hypothesis of the test is $H_0: \rho = 0$ in the equation $\varepsilon_t = \rho\varepsilon_{t-1} + \varepsilon_t$, with the alternative hypothesis $H_1: \rho \neq 0$. According to the DW test statistics =2.040, we appreciate that there is no first order autocorrelation among the residuals. When testing for high-order serial correlation, by computing the serial correlation Breusch-Godfrey Serial Correlation LM test, we test the null hypothesis that there is no serial correlation up to lag 12:

$H_0: \rho_1 = \dots = \rho_{12} = 0$ in ecuatia $\varepsilon_t = \rho_1\varepsilon_{t-1} + \dots + \rho_{12}\varepsilon_{t-12} + \varepsilon_t$,

$H_1: \rho_i \neq 0, i = \overline{1,12}$.

The LM test statistics equals 9.613 (p-value = 0.649), hence for $\alpha = 0.05$ we accept the null hypothesis that there is no high-order serial correlation among the residuals up to lag 12.

Figure 9. Evolution of the estimated values versus actual values

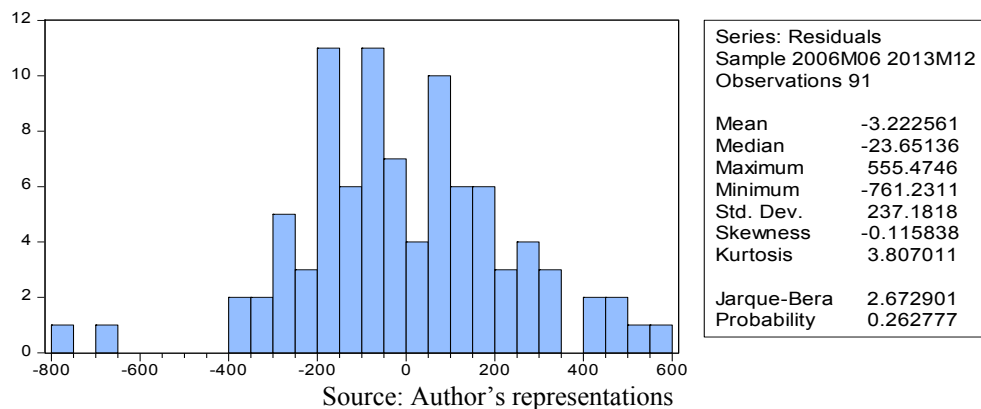


Source: Author's representations

The normality of the distribution of residuals is tested with Jarque-Bera test, with the null hypothesis that the residuals are normally distributed. The JB test statistics of 2.672 (p-value = 0.262) shows that we have enough evidence to accept the null hypothesis for $\alpha = 0.05$ and to consider the errors as having a normal distribution.

Figure 10. Histogram of residuals





Heteroskedasticity of residuals is verified by computing the ARCH test, assuming that errors are homoskedastic.

$$H_0: \rho_1 = \dots = \rho_{12} = 0 \text{ in the equation } \varepsilon_t^2 = \rho_1 \varepsilon_{t-1}^2 + \dots + \rho_{12} \varepsilon_{t-12}^2 + \varepsilon_t,$$

$$H_1: \rho_i \neq 0, i = \overline{1, 12}$$

As the test statistic equals 7.810 (p-value = 0.799), we can accept the null hypothesis, thus there is no ARCH effects up to lag 12.

Analyzing the structure of the of the ARIMA (4,1,8) shows that both for AR roots and MA roots, all roots lie in the unit circle and that the model is stationary and invertible.

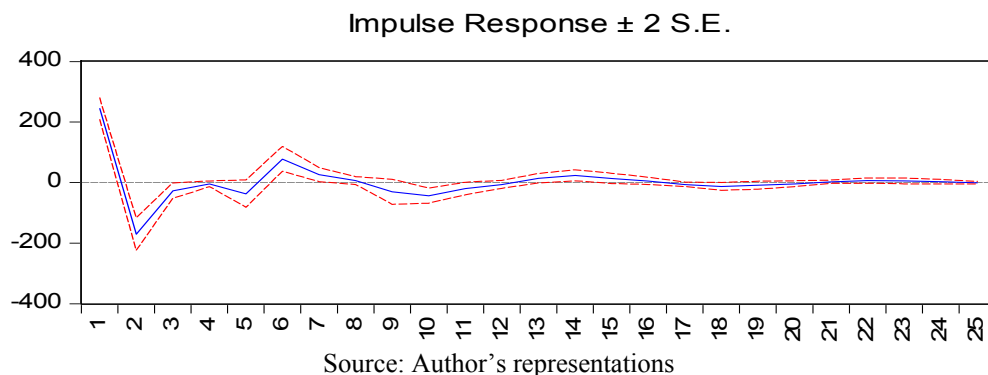
Table 4. Inverse Roots of AR/MA Polynomial(s)

AR Root(s)	Modulus	Cycle
$0.635015 \pm 0.590433i$	0.867095	8.388386
$-0.554439 \pm 0.590805i$	0.810218	2.703084
MA Root(s)	Modulus	Cycle
$0.814358 \pm 0.550872i$	0.983178	10.56450
0.871218	0.871218	
$-0.532013 \pm 0.611927i$	0.810859	2.748009
$0.058800 \pm 0.725251i$	0.727630	4.217194
-0.696110	0.696110	

Source: Author's calculations

Moreover, the impulse response (Figure 9) shows that an innovation in the evolution of the insolvency phenomenon in the first months drives a decrease in the number of insolvencies, yet this trend changes as such impulse impel an increase in the number of companies. However, the shocks are absorbed over time by the economy.

Figure 11. Impulse response function of ARIMA(4,1,4) model



Conclusions

In the attempt to identify if there is a propagation of insolvency in Romania, in particular if a snowball effect exists among companies filing for insolvency, the Box-Jenkins methodology has been applied. The results show that the past values and shocks or innovations explain around 35% of the variation of the aggregate number of insolvency in Romania. This outlines the fact that in the process of explaining the evolution of the number of companies filing for insolvency, other determinants should be also considered in the analysis, factors characterizing the macroeconomic climate, microeconomic environment, and social context.

Relative to the aim of the present article, the results confirm a propagation effect of the insolvency phenomenon in the Romanian economy, as past values, for which coefficients have proven to be significant. As resulting from ARIMA(4,1,8) model and the impulse response function, own past values and innovations generate a decline during the first months, though during the subsequent months the number of companies filing for insolvency radiates. Nevertheless, over time the propagation becomes diffuse and the shocks are absorbed by the economy. The decrease in the first months could be explained by the reallocation of resources from the market to companies that are able to provide a substitute for the goods and services offered by companies filing for insolvency. A reason for the increase of the phenomenon in the medium-term might be the fact that insolvency of companies triggers a financial distress in the microenvironment and activity of their suppliers, creditors, customers, etc. and the inability to recover the credit offered alter their financial stability. Moreover, considering the significance of the constant term of the ARIMA(4,1,8) equation, the assertion that economic failure is a natural economic event is acknowledged.

From legal and economic point of view, reorganization of companies represents one alternative to counterbalance the negative effects of insolvency and bankruptcy. However, the number of companies which go into reorganization is low, under 5% of total companies opening the insolvency proceedings. The causes may be various, and are not the purpose of this paper to identify them, nevertheless we might mention here the limited number of specialists, given the magnitude of the phenomenon, the late opening of insolvency proceedings which makes it harder



for reorganization, the lack of financial resources for implementing reorganization plans, the lack of trust shown by creditors in the organization plan, etc. It could be also favorable for entrepreneurs to monitor and evaluate their activity so as to allow them to identify the problems at an early stage, to take the necessary actions to remedy in time the problems, to communicate constantly with business partners, creditors, suppliers, to have a good knowledge of the business laws and regulations, to appeal to professional consulting services, etc.

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THE ROLE OF EUROPEAN REGIONS IN THE AREA OF SUSTAINABLE DEVELOPMENT. A COMPARATIVE ANALYSIS BETWEEN ROMANIA, POLAND AND BULGARIA

Radu CIOBANU*

Abstract: *At European level, regions represent a key political entity in order to pursue European policy objectives, especially those related to Cohesion Policy. However the structure, roles and performances of such entities remain diffuse and different in the European space. This study analyze the role of the regions in the area of Sustainable Development, as, this is the main paradigm for development in EU. The study is structured in two main parts. In the first one, from a theoretical perspective, we inquire if regions with their characteristics and dimensions represent a proper actor by which sustainable development can be implemented. The second part shifts the focus on empirical evidence to figure out what roles are attributed to regions by some Eastern European States, based on the analysis of the National Strategies for Sustainable Development of Romania, Poland and Bulgaria. The results of the comparative analysis show that regions are called to play different roles and are given different importance in these states according to the administrative-territorial division, experience, historical and cultural factors. But also the theoretical analysis suggests that for the aims and dimensions of Sustainable Development, regions may represent an important and effective actor. The implications of these findings provide an argument in favor of regionalization and institutional strengthening of the regions, and also provide Poland as a possible model for Romania and other Eastern European Countries whose basic goal is achievement of sustainable development.*

Keywords: regions; sustainable development; actors; National Strategy for Sustainable Development; Eastern European space

Introduction

There is a well-known fact that economic development in European Union (EU) puts a great emphasis on a regional approach. From this perspective, regions have become a key entity for European policies, their status as political actors being recognized with the establishment of the European Committee of the Regions (CoR) in 1994 (Mathias, 2004, p. 1). For example, the Cohesion Policy, a

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major EU policy in terms of budgetary money spent on it, has the main beneficiaries the EU regions. Also the promotion of the concept of a "Europe of the Regions" by the European Commission, stands as evidence for this significant focus (Counsell and Houghton, 2004, p. 5).

If the notion of "Regional Development" gives us a clear insight concerning the recipients of development policy in EU, when we inquire how European Union intends to do this, in which manner and from which theoretical perspective, the answer seems to be also clear – in a sustainable development paradigm. Both these approaches define significantly the EU conception about economic development and they are crucial for studying and understanding the dynamics of development in Europe.

In this context, the main problem that this paper addresses is the intersection and interaction between these two perspectives on development issues, considered in EU. More specifically, we are interested to investigate the role of the regions in the area of sustainable development (SD), with a particular emphasis on the Eastern European space.

This problem primarily emerged after noticing that the theory of sustainable development, despite the universal permeability of the term in various fields and at all institutional levels, is still confronted with recognition issues, and theorization efforts (Jabareen, 2008), (Koroneos and Rokos, 2012). The complexity of the concept, integrating three different dimensions – economic, social and ecological, seems to be responsible for this difficulty (Bolis, Morioka and Sznclwar, 2014). Accordingly, the ways of actions, the actors involved and their roles and responsibilities have been diversified and changed. Starting with these observations, we wonder what can be the role of the regions in the area of sustainable development since the EU gives such a great attention to them.

Our work will focus further to answer a few questions related to the issue investigated:

1. Where can be placed and how important is the role of the regions in a sustainable development paradigm from a theoretical perspective?
2. The primarily European focus on regions has a correlative in the Eastern European countries, meaning that these countries recognize the importance of regional level of governance?
3. National states from Eastern Europe rely on regional level and regional actors in order to achieve sustainable development?

Before going further into analysis, we feel the need to make some remarks about the two most important notions that we are considering here – regions and sustainable development. That's because both concepts have been accused of ambiguity and are susceptible for different interpretations (Connelly, 2007), (Ambroziak, 2014, p. 22), but also because these clarifications are useful for our purposes.

Starting with the first one, the word "regions" can have a wide range of meanings and definitions according to the level of government considered and the specific functions or the area it covers (Ambroziak, 2014, 22), (Keating, 1998, p. 8). From a vertical perspective, regions can refer to a global dimension or a



supranational one (Miric, 2009, p. 16), here of course we are interested in sub-state regions and not geopolitical entities. But also at this sub-state level, regions can be interpreted as economic regions, historical or ethnic regions, administrative or political regions, etc. according to their function (Mathias, 2004, p. 14).

The concept of sustainable development was also subjected to many criticisms over time, being considered vaguely formulated (Gibson, 1991), oxymoronic in construction (Redclift, 2005), susceptible to manipulation (Jickling, 1992), even reaching the point where it was declared at his end (Vinuales, 2013). But it seems that these obstacles do not necessarily mean the weakening of the concept, but rather its reinforcement by fostering the dialogue which gives rise to more vigorous contributions from the other side (Drexhage and Murphy 2010).

Beyond these challenges, we will consider both concepts from an EU dimension, in accordance with our goals. Therefore, the term of regions is referring to the NUTS 2 level of the common classification of the territorial unit for statistic¹, adding that we will use the notion in general terms, so it can include regional bodies, authorities, and regional level of governance. Sustainable development includes a vision where economic growth, social cohesion and environmental protection are strongly correlated and go hand in hand, as described in various EU documents².

In what follows the paper is structured in three main parts, beyond introduction and conclusions. The next section presents the materials and methods considered in the paper. The second section represents a theoretical approach which investigates the role of the regions in the sustainable development paradigm. In section three we shift the focus toward empirical evidence in order to see what role play the European regions from Eastern European states in achieving sustainable development.

1. Materials and methods

Given the nature and the goals of this paper, we will consider in this work predominantly qualitative research methods. For the first part, the analysis of scientific literature combined with conceptual analysis will help us understand the relationship between regions and sustainable development from a theoretical perspective.

The second part, as the title suggests, will attempt a comparative analysis between three European states, regarding their focus on regions when it comes to the pursuit of sustainable development. As data analysis technique considered here, we will use the document analysis, mentioning that our documents are represented by National Sustainable Development Strategies (NSSD) of each of the countries

¹ NUTS – Nomenclature of Units for Territorial Statistics (fr. Nomenclature des Unites Territoriales Statistiques – NUTS) is a common classification of territorial unit for statistic at European Level. Level NUTS 2 corresponds to regional level.

² The current EU Sustainable development Strategy (2006): European Council DOC 10917/06, or 2009 Review of the EU Sustainable Development Strategy COM (2009) 400, share this vision.

covered. Also, in this part, a table for synthesizing and interpreting data will be constructed and used as an instrument.

The focus on the Eastern European space and the choice of Romania, Poland and Bulgaria to be taken into consideration in our analysis is related to certain common features that these states presents, regarding their economic development and history³, but also the choice depends on the author's research interests.

In what concerns the use of NSDS as a tool for investigating the role of the regions, we have considered that the national governments have still the main responsibility in achieving the sustainable development (Ruotsalainen, 2006, 17). And starting from the responsibilities that central government assigns to various actors in a national strategic document, we can have a good representation of the roles of regions. Even if analyzes using the NSDS are complicated by the fact that there is a great variation between them among the individual states (Gjoksi, Sedlacko and Berger, 2010), (Meadowcroft, 2007), there are several works considering this method in the comparative literature, among which we can mention the recent contributions of Bass and Dalal-Clayton (2012), Gjoksi, Sedlacko and Berger (2010), Steurer and Hametner (2013), Casado-Asensio and Steurer (2014), etc.

2. Theoretical background – regions and sustainable development

In the introduction of the paper we made a few remarks about the notion of sustainable development and the sense of the term that we are considering. This tridimensional meaning, that implies the economic, social and environmental dimensions, is widely accepted and used in the scientific literature. In what concerns the participation and responsibility for this type of development, it was argued that this is a process where all societal actors should participate, given its implications (Pohoata, 2003, p. 29), (Vonkeman, 2013, p. 48). As well in the Rio Declaration and Agenda 21, documents that lay the foundation for sustainable development, is highlighted the wide participation of stakeholders in development process as being a key principle for SD (Cherp *et al.*, 2004). But where regions fit in this multitude of actors and what importance it should be given to such level of governance?! Relying on contributions of different authors who were concerned about this topic, we will argue that the regions and regional level are important for sustainable development from at least three perspectives.

First of all, the very nature of SD issues, have their origin and finality at local and regional level. The quality of human life can be a concern and an idea of global resonance, but it can be addressed only at lower levels based on subsidiarity principle and close to the public (Ruotsalainen, 2006). Also, the problem of "unsustainability" generated by the conflict between economic growth and environment, most often has global implications but the origins are local, regional,

³ We refer to the fact that most regions of these countries have a GDP per capita below 75% of the EU27 average, and historically they have experienced the socialist regimes until the 1989-1990.



hence the solutions for these problems should be identified at the regional level (Vonkeman, 2013, p. 33).

Second, we agreed that sustainable development it's everyone's responsibility and this implies a process where various societal actors interact and participate – NGOs, companies, public bodies, mass media, etc. Or a process of networking and governance of such nature can be effectively organized and coordinated only at regional and local levels, preferably with institutional support and assistance from higher levels (Vonkeman, 2013, p. 48). Asking if the local level it's not capable alone for this task, we say that regions represent a place for coordination, conciliation and aggregation of various local conflicting interests and needs. Or as Borzel (2003) puts it: “subnational entities, such as regions, provinces, autonomous communities, and *Lander*, hold important resources that are necessary to develop and implement sustainable development. It is not only their capacity to make and impose collectively binding decisions. Regional governments play a crucial role as interface coordinators or arenas for policy coordination among local actors with the necessary resources to make regional policies work” (Borzel, 2003, 20).

Finally the sustainability in the SD paradigm, not only refers to the ecological dimension of the concept meaning just to pursue economic growth without damaging the environment. Rather, the concept refers as well to a social sustainability and economic durability, which are achieved and enhanced by processes such as social reproduction and economic agglomerations (Krueger and Savage, 2007), processes closely related to the regional level.

All these considerations represent arguments that place regions in the hearth of sustainable development, being an important and effective actor for coordinating various local interests horizontally and vertically between local institutions and the central government.

3. The role of the regions in three National Sustainable Development Strategies (NSDS)

The NSDS represent strategic documents of the national states that provide the framework for pursuing and implementing the principles of sustainable development within their borders. The idea was launched in 1992 at the UN Conference on Environment and Development (the Rio Earth Summit) and reinforced in 2002 at the UN World Summit on Sustainable Development, urging states to elaborate and start implement the NSDS (Cherp, George & Kirkpatrick, 2004). By the end of '90s, many countries started to prepare these strategies, European Union launching herself in 2001 a sustainable development strategy that was revised in 2006. Member States were also asked to finalize their NSDS by 2007 based on the renewed EU SDS strategy (Gjoksi *et al.*, 2010). Regarding the actors involved and the role of the regions, the EU SDS strategy mentions in the section “Communication, mobilizing actors and multiplying success” that: “With regard to the important role of local and regional levels in delivering sustainable development and building up social capital, it is the overall aim to build sustainable

communities in urban and rural areas where citizens live and work and jointly create a high quality of life” (Review of the EU Sustainable Development Strategy, 10917/06). In contrast with this, in an analysis of NSDS of national states, Meadowcroft (2007) noted some areas which required attention in NSDS considered, one of them being “co-ordination with sub-national government” with a particular importance: “broad regions which cover an area large enough to permit integrated economic and environmental planning, allow synergies and trade-offs to be explored, and yet remain more homogeneous (with a tighter sense of identity, closer links to local political processes) than large national states.” (Meadowcroft, 2007). However, most European countries have started to revise their NSDS between 2006 and 2008.

Further we will proceed with the analysis of the NSDS of Romania, Poland and Bulgaria starting with some clarifications about each country and strategy considered.

a) Romania

Romania is structured in eight NUTS 2 regions that are not territorial administrative units, but are represented by two institutions – Regional Development Council (RDC) and Regional Development Agencies (RDA). But these two bodies that are coordinating the regional level, have a fuzzy and questionable status and are dominated by local political influences. (Dobre, 2010).

Romania has a NSDS since 1999, the current strategy being approved in 2008 after a reviewing process to ensure the convergence of the strategy with the EU SDS objectives.

b) Poland

Unlike Romania, the NUTS 2 regions of Poland correspond to the territorial administrative division of country's voivodeships. Since 1996 in Poland emerged an extensive network of 66 local and regional development agencies, indicating an active approach of local and regional actors (Brusis, 1999). In 1999 was set up the current administrative division which is based on three levels of subdivision, at the regional level the territory being divided in 16 voivodeships. Poland is considered to be a major beneficiary of the European Cohesion Policy that can represent a “laboratory” for evaluation of interventions of regional development (Bienias and Gapski, 2014).

Poland adopted a NSDS in 2000 and like many other countries decided in 2007 that this strategy was outdated. In 2007 and 2008 efforts have been made to create a legislative and institutional framework in accordance with the EU SDS. The result was materialized in two strategies for development (mid-term 2020 and long term 2030), and nine integrated strategies, each of these coherent with the EU SDS. Even if these documents does not explicitly identify themselves as sustainable development strategies, the sustainable development approach constitutes their basis, Poland being from this perspective one of the few countries who managed to put the NSDS at the core of their national policy planning (Gjoksi, Sedlacko and Berger, 2010). For these reasons we will consider the National



Development Strategy 2020 as the primary document for our analysis, in the absence of a current expressly NSDS.

c) Bulgaria

Similar to the case of Romania, Bulgaria had to create six statistical planning regions for the NUTS 2 level, merging several provinces not necessarily linked historically or administratively. At the regional level there are constituted Councils of Regional Development, whose members are representatives of the ministries, national agencies, provinces and municipalities.

Bulgaria is one of the few countries where the process of developing and implementing a NSDS was delayed for a long period of time despite the European requests in this regard. Even now, Bulgaria is missing an approved integrated NSDS, but it has developed a draft for NSDS and a project for National Strategy for Environment (2008-2018), both available only in Bulgarian language. We will consider in our analysis the draft of the National Sustainable Development Strategy developed in 2007.

The data of our analysis were structured and included in a table illustrated below, which will facilitate the interpretation of the results.

Table 1. Issues regarding the role of the regions in NSDS of three countries

Country	Romania	Poland	Bulgaria
1. It's Regional development important according to the strategy?	<p>YES</p> <p>The National Objective Horizon 2013 is: "To support sustainable and territorially balanced economic and social development of the Romanian regions according to their specific needs and resources by concentrating on urban poles for growth; improving infrastructure and business environment so as to make Romanian regions, especially those lagging behind, more attractive places to live, visit, invest in and work." P.108</p> <p>Point IV.3 – of the strategy is dedicated entirely to the regional development specifying:</p> <p>"Viewed from the angle of sustainable development principles and objectives, regional trends are of crucial importance. In Romania's specific circumstances this importance is even higher considering the growing territorial disparities in terms of economic and social development, rational use of</p>	<p>YES</p> <p>One of the main strategic area: "Social and territorial cohesion" which is in accordance with the Regional development objectives. Objective III.3</p> <p>Strengthening the mechanisms for territorial development balancing and spatial integration in order to develop and make a full use of the regional potentials. – the strategy details the mechanisms, the activities to be taken and financial conditions for the implementation of these activities.</p>	<p>YES</p> <p>The 6th part of the strategy refers to demography and social inclusion of the country including principles coherent with the regional development – such as eliminating gradually disparities between regions, creating conditions for sustainable demographic development and others.</p>

	resources and the quality of environmental infrastructure”.		
2. The strategy explicitly stipulates the actors involved, and responsible for reaching the objectives?	<p>Partially</p> <p>Part V of the Strategy ”Implementation, Monitoring and Reporting” presents the most important actions to be taken, measures and actors involved for the implementation of the strategy.</p> <p>These measures and actors are described in general terms in two pages.</p>	<p>YES</p> <p>A special part of the strategy is dedicated to Implementation Framework, specifying the financial resources and the implementation system.</p>	<p>Partially</p> <p>The last part of the strategy is reserved to the implementation, monitoring and evaluation of the NSDS. Few lines that describe this part only mention that the responsible for the supervision and implementation of the strategy is the Ministry of Economy and Energy who can involve additional members from other groups if necessary.</p>
3. Are regions (regional bodies, institutions, authorities) considered as important actors for the purposes of sustainable development?	<p>NO</p> <p>The strategy does not mention any regional body when describes the actors involved for implementing strategy.</p> <p>Even when the strategy refers to various societal actors it omits the regions:</p> <p>”active participation of all relevant actors: central and local authorities, political parties, business and professional associations, social partners, the educational and research systems, the civil society and the mass media.” P.92</p> <p>In few of the mentions about regional authorities the strategy is not clear about what kind of authorities are considering :</p> <p>”regional, county and local authorities” p. 108</p>	<p>YES</p> <p>When talking about implementation system, the strategy makes clear the role of the voivodeship:</p> <p>”The voivodeship government plays an essential role in the programming, management and coordination of development measures at the regional level. Its most important include programming of development activities in the region (voivodeship development strategy), building cooperation networks at the regional level, coordinating the development activities implemented in the region and supervision of the regional policy implementation using appropriate monitoring and evaluation mechanisms.” P.136</p>	<p>NO</p> <p>Even if there are many references in the strategy to regional development, regional planning, and also to regional authorities (referring to cooperation with regional and municipal authorities), there is no an integrated approach on this issue.</p>
4. The strategy identifies the regional level of governance	<p>NO</p> <p>Even if the strategy mention in the beginning that one of the guiding principle is “Policy coherence and the quality of</p>	<p>YES</p> <p>Regional cooperation network is considered to be important for the implementation of the</p>	<p>NO</p> <p>At the beginning of the strategy are mentioned the key principles in order to achieve</p>



as being important?	governance at local, regional, national and global levels” p.12, there are no other references throughout the strategy about this.	strategy: ”Its most important include programming of development activities in the region (voivodeship development strategy), building cooperation networks at the regional level (...) Local governments which are involved in the development policy implementation at the regional and local level at both the programming and implementation stages of development activities, constitute an important element of the regional cooperation network”.	sustainable development. One of them is related to connectivity policies and governance, increasing interconnection between EU policies and the local, regional and national level. But there are no other references in the text of strategy on this issue.
5. For the strategy as a whole, what level is emphasized and takes the biggest responsibility for sustainable development (central, regional, local)?	Central level For monitoring the implementation of the strategy, the document suggests to create two institutions at central level: to institute an Interagency Committee for Sustainable Development at executive level, under the direct authority of the Prime Minister and to institute a Consultative Council for Sustainable Development at national level with a Permanent Secretariat.	Local + Regional Even if strategy considers the central government and the state as being responsible for achieving the goals of the document, we must consider the fact that this is a national strategy, developed and addressed primarily to central government, and it's natural to be so. However in what concerns the sustainable development issues, the actions and measures are targeted at local and regional level, with a particular emphasis on local level.	Central level In the last part the document explicitly states that the central government and the Ministry of Economy and Energy is the institution responsible for implementation and coordination of the strategy, and only if requires can involve others groups or institutions.

The first observation is that Romania and Bulgaria from one side, present striking similarities in contrast with Poland which seems to be at the opposite pole. If the two countries that joined the EU in 2007, put a great emphasis on central level in pursuing the sustainable development, Poland recognize the local and regional level as being of primary importance for this goal. Partially this is explained by the territorial division of these countries, Poland having the voivodeships as administrative units, wasn't forced to create fictional regions for NUTS 2 level, and obviously the focus is more prominent for this level of governance. But it's not only that, because the administrative division of Poland it's not necessarily linked to a historical component, the voivodeships were created in

1999, in Poland's efforts of Europeanization of administrative system (Jablonski, 2000). This implies that the overall vision of Poland regarding the importance of various levels of government is totally different from the highly centralized perspective of Romania and Bulgaria. More than that, Poland, as we already mentioned, managed to put the sustainable development at the core of its strategic planning system, not being concerned to develop and have a separate NSDS (Gjoksi *et al.*, 2010). On the other hand the case of Romania and Bulgaria who made efforts to build their NSDS in accordance with EU SDS, otherwise commendable, lack an integrated vision between the key principles assumed in the strategies (among which regional development and governance play an important role), and the methods, institutional framework to achieve the set goals where the focus is predominantly central.

Concluding remarks

This paper analyzed the role of the European regions in the area of sustainable development from a dual perspective – theoretical and empirical. If in theory, giving the complexity, the multitude of actors involved and implications of sustainable development, regions represent an important actor and level of governance; the empirical analysis of three Eastern European states has shown that states do not necessarily pay a great importance to such entities when it comes to the pursuit of sustainable development. This of course is valid for Romania and Bulgaria, two centralized states which seem to assume the sustainable development more in principle, than to be concerned with the means and actors involved for achieving it. On the other hand, Poland along with other states⁴, are putting a particular emphasis on regions, recognizing their important value in the complex dynamics of sustainable development. The difference can be explained in part by the administrative system of each state, but there are others important factors who contribute to this situation such as culture, historical experience, political will and the success of reforms implemented.

The implications of these findings are important for states like Romania and Bulgaria that set their long-term ultimate goal to be achievement of sustainable development. It can represent an argument in favor of regionalization or at least an urge for consolidation the regional structures and institutions in order to enhance the level of governance. But we must be clear that we do not suggest a mere transfer of powers and responsibilities on account of regional authorities or creation of new formal institutions. We rather propose a coordinated and monitored process from central level which aims to boosts local and regional initiatives, to

⁴ Ruotsalainen (2006) analyzing the NSDS in Baltic Sea Region notes that: "The roles and responsibilities of the regional and local authorities' were discussed in almost every reviewed NSSD document. They were generally considered to play an important role in NSSD implementation as they manage substantial parts of specific environmental and spatial planning activities. They are also close to the public and thus have a good opportunity to involve their citizens in active debate on local planning." (Ruotsalainen, 2006, 17).



create new forms of cooperation and governance and that is integrated in approach with the institutional and strategic framework.

From the same perspective, our analysis provide the Poland as a good example for Romania and Bulgaria to follow in this direction, because all three states, although at different stages now, present similarities regarding their starting points and their path toward European integration.

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POLICY CONVERGENCE IN EUROPEAN EMERGING POLITIES: A CONTENT ANALYSIS ON SELECTED CROSS-BORDER COOPERATION STRUCTURE

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Abstract: *The paper starts from the hypothesis that the viability of emerging territorial units depends on the way their members reach a converging approach towards issues of common concern. Based on previous results, we rank ten selected cross-border cooperation structures (CBCS) according to their institutional strength as a measure of assessment of their viability as polity. Data are then collected for each CBCS for three areas of cooperation, i.e. economy, society, and environment, in the form of policy documents. The analysis uses text mining techniques to explore the content of documents on each selected region and on each areas of cooperation. The results are further explored inside a thematic mapping of clusters, which is analysed through content analysis. The goal is to investigate and assess what is the cross-border cooperation level of policy convergence inside EU selected case studies, based on the emerging themes.*

Keywords: European integration; policy agenda; polity

Introduction

The increase of cross-border initiatives has become an established feature of the European economic space. From small to large-scale trans-border projects, setting-up nearly accomplished self-contained economies asserts precedence in opening up new vista for research: How much will it change the impact of nationally devised economic policies? Will it strengthen or weaken instead the role of the nation-state? The pace of accomplishing the EU single market, will it accelerate as a result? In this paper, we argue that some answers may result from an investigation as to the existence of a consensual view of policy-making.

Inside the European Union, there is a developing process of cross-border cooperation maintained by actors with a keen interest to spur mutual benefits that arise from cross-border externalities and spillovers or linkages of all kind: economic, technological, social, cultural, educational, environmental, etc. From

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this process results the need of coordinated interventions of countries in regional policies' design and implementation and, even more, the need of an adequate territorial organization of authority (ESPON, 2010). The question is which institution and from which side of the border could coordinate the activity of cross-border agglomerations that developed as a concentration of economic activity around border areas.

According to Perkmann (2007, p. 254), „a cross-border region is a territorial unit that comprises contiguous sub-national units from two or more nation states”. Cross-border cooperation structures (CBCS) are organizations that may or may not hold legal personality and which are founded to manage cooperation projects of the members of a cross-border region. CBCS have limited authority in relation to national states, which differs according to the form of organization: association, charter, intergovernmental commission, European Grouping for Territorial Cooperation (EGTC), etc. (ESPON, 2010). However, they play an important role in coordinating cooperation and representing the interests of the respective region (AEBR, 2008). The collaboration efficiency of the initial institutional design is essential for the later development of the CBCS.

In particular, we start from the hypothesis that the viability of the emerging territorial units depends on the way their members reach a converging approach towards issues of common concern. Based on a previous research, we rank ten selected cross-border cooperation structures (CBCS) according to their institutional strength as a measure of assessment of their viability as polity. In this paper, we test the hypothesis that policy consensus among the members of a cross-border cooperation area may be a condition for deeper regional integration. While, structural integration is considered more advanced than simple coordination of certain policies, we believe that the emergence of new cross-border cooperation structures may diminish the role of the nation state to different levels according to the extent to which trans-boundary governance extends its prerogatives. But, before CBCS gain sovereignty, there is a certain parallelism and coordination between the policies of the members with the role of supporting initiatives of cooperation in different domains and between different kinds of institutional or private actors, existent networks and functional linkages which can produce important spillovers and enhance economic competitiveness.

We attempt to identify these common views in a case study that includes several CBCS in the European Union. Data are collected for each CBCS for three areas of cooperation, i.e. economy, society, and environment, in the form of policy documents. This material should both come from an authoritative source and represent the interest of all participating members in all three areas. We search for expressions of political consensus or conflict within policies, objectives, proof of actions, opinions, etc. that appear in a set of documents (issued by the authorities of each member) that we collected by a pre-established methodology.

The analysis consists in extracting meaningful information from respective documents to explore the strength of cross-border cooperation. Besides the visible links among CBCS, there is a much hidden knowledge inside the documents which create, manage and shape the future of regional structures. In our research, we



deploy text mining techniques to explore the content of documents on each selected region and on each areas of cooperation. The results are further explored inside a thematic mapping of clusters, which is analysed through content analysis. The goal is to investigate and assess what is the cross-border cooperation level of policy convergence inside EU selected case studies, based on the emerging themes. We try to use a balanced quantity of information from each member and in each of the three directions of cooperation: economic, social and environmental protection. The selected cross-border cooperation structures are very different in terms of size, autonomy, political organization, institutional level, specialization and with a variety of public and private actors involved, which all seek to channel cooperation in one direction or another, facing the “challenge of being divided across two or more sovereign nations, with different governance systems and different strategies” (Anderson, 2011, pp. 492). Using this variety of data, we expect to find general conclusions about the role of cross-border externalities on policy coordination and the effect of policy coordination on the sustainability of the territorial unit.

1. Theoretical framework

Trade liberalization and economic integration in the European Union have led to shaping numerous cross-border regions. Due to the new business networks and cooperation opportunities the economic space is transformed and national borders come to play a different role. Hirsch (2009) observes the new role of boundaries as a ‘place and moment of transition’, while the increased cross-border flows lead to a deeper regional economic integration and socio-spatial changes (p. 131).

The concept of borders is vital in discussing cross-border cooperation. Throughout time, the meaning of borders has always changed. Even though there never existed a full agreement regarding the purpose, form and function of borders, until recent time they were regarded mainly as ways to establish the territory of nation-states (Brunet-Jailly, 2012). But this understanding of borders has changed dramatically within the last few decades, mainly due to the process of globalization, which led to increasing global integration of various interests. Therefore, in achieving the goals of cross-border cooperation, namely to ease the barrier effect, borders must transmute from lines of separations into a communication and healthy relationship between neighbours. That is, one must look beyond the mere territorial frontiers. Cross-border cooperation leads to the formation of regions and territories that are essentially a manifestation of functional cooperation, regardless of the territory of sovereign nation states, while the territorial limit will be determined by functionality (Ohmae, 1990). “Borders today are aligned by both globalization and localization. That is, boundaries are defined by and operate in a continuum of local global activity, and one needs to consider the parallel processes at both ends of the spectrum in order to understand the impact of boundaries on society in space.” (Konrad, 2006).

As Cojanu (2013) points out, an optimal context for market integration is confined to a cross-border region where jurisdictions are willing to share resources

with other members, which will lead to externalities and economies of scale, being a mutual benefit for the parties involved.

Beyond representing territorial limits and institutional separation, the concept of borders brings about the discussion related to geographical and institutional proximity between neighbours, treating regional communality as a competitive asset (the main purpose of cross-border cooperation structures). Cojanu and Robu (2014) analyse how the advantage of geographic proximity can be harnessed within a common institutional cooperation framework implementing projects in different thematic areas in several CBCs. Their findings confirm the existence of a good level of both types of proximities as a condition for positive results of cooperation and development and that a strong institutional cooperation leads to a strong cohesion. Moreover, to maximize the advantages of cross-border cooperation, countries must have a “robust political economy” (Schoon, 2013), which describes an economy that copes well with different problems arising from cross-border exposure. Institutions and institutional frameworks do influence cross-border coordination, its degree depending on each country’s historical legacy (Schoon, 2013).

The development of cross-border cooperation structures has been quite remarkable and occupies a vast space of analysis in the economic literature. We choose to concentrate on issues regarding policy convergence and the way it is seen by institutions that govern cross-border regions in order to support the hypothesis that functional linkages must be supported by a good institutional design to obtain a good cohesion.

Several authors focus on the political coordination of the members of a trans-boundary region and the way it results in diminishing national authority: Ohmae (1996), Jerneck (2000), Anderson (2011). This phenomenon has a two-fold consequence. On one side it means restricting its sovereignty (Hlatky, 2012) and, on the other side, it empowers CBCs to exploit their competitive advantage. While national decision makers agree to cooperate under a common agenda with their neighbors, they realize that new externalities arise (Cnossen, 2003). Furthermore, supranational institutions are often created, but in other cases it’s enough to give more decision power to local governments (Chen, 2005).

During the continuation of the academic debate, institutions express their different opinions and draw different forces which either stimulate or limit cross-border cooperation. We find examples of reluctant vision of an advanced form of integration in NAFTA, where the USA insist on border security (Hlatky, 2012) and Canada and Mexico fear of cultural and political domination by the United States (Arndt, 2006). It is also important to mention that the integration process was adapted to particular unexpected events happening over time. For example, Hlatky (2012) mentions the policy innovation across Canada – US border after the terrorist attacks on 9/11 2001. New security measures were introduced, but changed and improved over time in order to simplify the border crossing procedures and to reduce costs. Canada - USA cooperation is the result of a functional relationship as both countries responded to border policy challenges, even if each one has different priorities, Canada being more focus to obtain improvements in trade Hlatky (2012).



Although bilateral trade and cross-border production sharing inside NAFTA are of great interest to decision factors from all member states (Anderson, 2011), political, legal, social and institutional characteristics impede measures for a more integrated form of cooperation similar to the European Union (Arndt, 2006). Arndt (2006) argues that the three countries that form NAFTA have done little to build on the initiative they started years ago and that the benefits it has delivered did not reach the expectations, while costs have been larger than anticipated. Meanwhile, particular cross-border regions with a strong cultural identity, such as Cascadia, managed to reach a very advanced form of integration without much national support and even began striving for independence (CascadiaNow, 2014).

The pros and cons of greater economic cooperation (moving towards a monetary cooperation) continue to be debated in North America. Silvers (2000), focusing on short term effects, expressed his concern regarding the economic linkages between the adjacent states of Arizona in the US and Sonora in Mexico, as the Mexican economy is more vulnerable to exchange rate instability and gains less from the trans-border cooperation. Nicol and Townsend-Gault (2005) believe that European transnationalism is far ahead NAFTA's integration as the European Union has deeper roots, greater currency and more political will. Nevertheless, the European Union might be a more advanced form of integration compared to NAFTA, but even inside the monetary union there is place for improvement. For instance, lack of coordination between the fiscal policies in member states leads to bottlenecks that restrict the functionality of the common market (Cnossen, 2003).

The differences between the cross-border cooperation vision in North America and in the European Union reveal two types of approaches. The first is born of particular initiatives and institutions adapt their regional policies to encourage cross-border cooperation (institutional integration follows economic integration), while in the second one, the economic integration is a result of institutional efforts. In the first case, there are cross-border networks supported by a certain policy coordination, while in the second case, supra-national institutions with a stronger degree of authority prevail (Brunet-Jailly, 2012). Our paper explores whether a strong institutional setting of a cross-border cooperation relationship determines a good cohesion, comparable to a national state.

In some cases an improper institutional level is the cause that impedes integration. Analyzing the organization of authority, scholarly attention is drawn by the question whether a bottom up or a top down governance would be more efficient. Schoon (2013) emphasizes that both strategies have advantages and disadvantages and that a decision should be made at a level matching the scale of the problem. Top-down institutional structures have the benefits of a broader viewpoint and more resources, but are more rigid compared to bottom up approaches which can adapt faster. Ulimwengu and Sanyal (2013), for example, found positive results of cooperation at governmental level materialized in adopting a common agenda and harmonizing legislation in an agglomeration in Africa specialized in agricultural production. In the absence of such a top-down coordination, other regions find their ways towards integration on regional and local level, such as the aforementioned region of Cascadia.



Coming back to the American experience, it is important for CBCSs in the European Union, to remark that functional linkages are possible even in the context of limited structural integration, but some level of policy coordination is necessary. In fact, political consensus is so important, that in the case of remote areas, the disadvantage of geographic distance can be reduced through policies aimed at reducing transaction costs or facilitating business relations (Vernon Henderson *et al.*, 2001). Political coordination comes mostly when the interests and aspirations are divergent and it is done for mutual benefits through imposed political decisions (Talbot, 2007). Afterwards, disagreement might continue, as opinions and interests do not change, which means the terms of cooperation are a permanent subject to negotiations. Nonetheless, opening up public and private interests to as many functional cooperative networks as possible within adjacent economic spaces is the second best solution until political interests eventually become subdued by economic rationality (Cojanu, 2012).

Determining the level of consensus or conflict between authorities in cross-border cooperation regions is, to our knowledge, a unique initiative. We establish this as the main purpose of this paper as we believe that the more the cooperation between the members of a cross-border region is based on agreement and setting common goals, the greater are its chances to take advantage of their common economic and social heritage and transform the region into a strong integrated pole of competitiveness.

2. Methodology

Recent advancement into linguistic and computational models revealed solutions for analyzing political discourses (Albaugh *et al.*, p. 20). Researchers involved in the field argue that the meaning of communication frames itself on words, among which complex relations exists. Moreover, the text “is an integral part of its context and the formalization of contextual patterning of a given word or expression is assumed to be relevant to the identification of the meaning of that word or expression” (Tognini-Bonelli, 2001, p. 4). The analysis of words from various corpora of text showed clusters with different relations in which the meaning of the words depends on its neighbors. This hierarchic association of words and spatial proximity within a sentence or a paragraph determines semantic fields, seen as maps or graphical charts. The abstract representation of language is transferred into models that suggest patterns of co-occurrence, indicating the semantic clustering. Such patterns indicate potential themes representative for the field of inquired corpora. Among the solutions proposed to analyse texts and words, we opted for content analysis, given its potential to develop “systematic, objective, quantitative analysis of message characteristics” (Neuendorf, 2002, p. 1).

Analyzing the patterns and reviewing the frequency of words are parts of content analysis which we used to gain understanding over the proposed hypothesis. While content analysis comprises many other steps, in this paper we focused on exploring the themes revealed by words co-occurrence from each of the corpora that may indicate models and strength of the three directions of cooperation. The rationale is that if words specific to the three areas of cooperation appear well structured, this indicates their



respective directions and the importance of cooperation. But before analyzing the content of the texts, we had to collect relevant materials on trans-border cooperation. Based on previous researches and methodological inquiries, we opted to mine the web to extract the texts. More specifically, the official web-sites of CBCSs were crawled to download all the text uploaded and considered to be official documents. Because not all of the CBCSs sites, which we first took into consideration, contained enough documents, only five regions remained for analysis, those which have relevant and diverse official documents uploaded on their website: Council of the Baltic Sea States, Greater Region, Nordic Council, Oresund Region and South Eastern European Region. The grouping of text into categories according to the three directions of cooperation involved reading of the documents and consultation among the members of the team. After these steps, the relevant texts (Table 1) of each category supported data preparation to uniform various expressions that might be considered individual words and to clean irrelevant information (like bibliography, web-links). To obtain the co-occurrence maps we pre-processed each corpora by using a stop words list (common English words and country names) and eliminating w-words and prepositions from analysis using as software KH Coder (Higuchi, 2014).

Table 1. The number of CBCS documents used in the content analysis

CBCS	Economic	Environment	Social
Baltic Sea Region	25	19	62
Greater Region	13	4	7
Nordic Region	9	11	5
Oresund Region	16	22	5
South Eastern Europe Region	10	7	6

Source: author's calculations

3. Results

Among the regions, frequency of words indicates the major elements among which the policy themes are structured. Because we analyse 5 regions, for each of the three dimensions of political cooperation, the frequency of words is limited only to the top 10 words. Differences in frequency of words vary across regions and dimensions. Words show the strong focus on the identity of the region, underlined by corresponding words and the dimensions on which the space is perceived through cooperation. The understanding of spatial relations is emphasized from economic corpora through words like project and area in the case of Baltic Region, region and centre for Greater Region, area and program for Nordic Region and SEE, region and development for Oresund Region. These basic findings of words frequency indicate the functionality of the regional cooperation and the way in which it is supposed to be developed. The other two corpora for each of the five regions suggest well framed paths of actions, which are better understood from their respective co-occurrence maps (Annexes). Moreover, elements of cooperation within the region emerged from sorting the top 10 words of each region to see which the indicators for common elements are. As expected, words like development, project, region, area, country, policy and program advocate that cross-border cooperation starts with project development within regions or specific

areas, given the country will and interest to establish common policies or programs. The orientation of environment and social dimensions reveals particular directions, although they are connected to the main words identified above. Another preliminary finding emerging from the frequency of words is that the identity of the region is well structured and supported on all the three dimensions by corresponding words.

Table 2. Main words' frequency in each CBCS

Baltic Region					
Economic	Frequency	Environment	Frequency	Social	Frequency
project	2219	project	892	child	417
area	1726	waste	715	social	311
development	1706	BalticSea	660	labor	255
BalticSea	1114	ecovillage	649	project	254
policy	1091	HELCOM	601	civil	243
BalticSeaRegion	987	management	576	country	233
impact	967	EuropeanUnion	431	union	231
planning	933	area	427	BalticSeaRegion	206
MSP	914	development	409	BalticSea	203
implementation	912	region	402	market	192

Greater Region					
Economic	Frequency	Environment	Frequency	Social	Frequency
region	709	cross-border	130	cultural	1539
Saarland	401	region	109	ECOC	1398
GreaterRegion	339	GreaterRegion	98	program	753
development	282	actor	76	mobility	666
center	254	policy	75	event	664
cross-border	250	network	73	project	633
metropolitan	188	transportation	67	european	474
economic	184	border	57	GreaterRegion	471
area	181	governance	56	city	424
CBPMR	137	public	55	activity	413

Nordic Region					
Economic	Frequency	Environment	Frequency	Social	Frequency
area	882	Nordic	641	municipality	249
program	634	research	504	social	245
Nordic	558	project	394	country	212
marine	412	cooperation	349	project	174
energy	380	innovation	258	policy	166
management	356	program	255	welfare	166
market	314	region	250	model	156
development	303	NordicCountries	248	development	139
planning	285	funding	242	labor	137
spatial	280	committee	239	Nordic	133



Oresund Region					
Economic	Frequency	Environment	Frequency	Social	Frequency
region	916	project	1742	energy	197
OresundRegion	651	port	1494	region	112
year	558	company	1172	OresundRegion	105
financial	536	region	1039	building	102
development	519	development	856	cost	90
rate	501	area	823	OresundCommittee	78
growth	487	transport	777	project	78
country	483	product	757	development	68
cent	419	research	749	border	67
company	416	EuropeanSpallation Source	710	cooperation	61

South Eastern European Region					
Economic	Frequency	Environment	Frequency	Social	Frequency
project	2482	area	542	heritage	996
program	1979	SouthEasternEurope	493	cultural	910
SouthEasternEurope	1479	aggregate	446	local	416
area	1255	project	431	development	406
country	1100	country	410	area	338
transnational	894	activity	379	asset	332
development	815	local	348	natural	307
partner	775	development	346	include	263
level	731	region	331	region	249
policy	647	environmental	326	CULTEMA	241

Source: author's calculations

Figures 1-15 (annexes) revealed the main themes for each region and the possible relationships among them. The structure of the networks emerged from selecting top 100 words and using random-walks option to represent the communities, option that allowed a better structuring of the clusters (Aggarwal, 2011). The position of clusters is not relevant, only the size of the circles and the lines among them. In the resulted maps, circles represent themes that have various importance, based on their size, while the line representation indicates the strength of association inside a cluster and the relative connection to other themes. All these allowed a deeper understanding of the cross-border cooperation themes, added to the initial exploration of key words frequency. Furthermore, co-occurrence analysis revealed consistency with the initial findings, but suggested in-depth results. Next we present the results for each region.

The Baltic Region economic clusters suggested the intensity of developing projects at different scale, involving the different structures (CBSS, HELCOM) specific for the organization. They focus on strengthening the cooperation by acting on the Baltic Sea as a complex system, fact suggested also by the environment map. In the case of environment and the social map, the issues are

more specific (ecological structures, marine protection, social development, child security), but they increased the understanding about the initiative of cooperation.

Situation of Greater Region identified that for economic dimension the regional theme is well developed, connected to the cities theme among which cross-border cooperation is high. The economic perspective indicated that cooperation is related to research and industry partnership. These themes showed continuation within externalities map, transportation distinguishing as the main theme, but one strongly related with the previously mentioned. The same case is for social map, where the two main clusters (culture and artists mobility) indicated additional themes of cooperation in the region.

The Nordic Region cooperation recorded a complex structure for all of its dimensions, being characterized by marine management, energy issues and unemployment for economic part, infrastructure and organization issues for externalities, while social showed the main themes focused on urban challenges, welfare and increasing social challenges.

Oresund Region analysis revealed strong relations among the development theme that expand over cross-cooperation theme and its structure. Moreover, the region indicated the importance of cross-border cooperation in the externalities map, where it was revealed as one of the central themes, alongside spatial development through transportation and business. A third theme emerged from externalities concentrated the words within an environmental framework. The same themes continue in the case of social co-occurrence map, energy and environment challenges revealing themselves as important.

The case of SEE Region showed that the project is at the core of the map, being very populated with connecting words based on partnership, cooperation and development at scale. Other elements from the economic map did not appear important, their distribution and connectivity indicating emerging elements in the policies of the region, but that were not enough developed until the date of documents collection. It is a situation similar for externalities where only one clusters dominates the map, the one of regional identity. Social dimension disclosed the importance of cultural heritage theme, connected to the CULTEMA project acting over environment, seen as a part of it.

All the results emerged from words frequency and co-occurrence maps indicated a well framed image of each region with some persistent themes within the dimensions of regions. Their relevance to policy convergence in European emerging polities is discussed in the next section.

Conclusions

In this paper, we collected official documents in which we identified the common language of authorities that determine the cooperation activity of selected cross-border regions. The clusters of common words and expressions that we have found in political speeches, opinions and CBCSs' goals and actions confirm our hypothesis that a good cross-border coordination of policies leads to an increased sustainability of the territorial unit.



Results show that there are numerous words that appear at a high frequency and that many of them are repeated across the three directions of cooperation within the same CBCS or across different CBCSs. Also, connections between words appear to be strong and the distance between them within a paragraph is small, which suggests that they are used in similar contexts and that there is a common speech and a good coordination between the actors and decision factors of the CBSS.

Repetition among several documents and paragraphs of words like ‘actions’, ‘activity’ and ‘results’ show an advanced level of implementation of projects and the preoccupation to monitor and evaluate their achievements. The most frequent expressions that were found in all CBCSs refer to official names of organizations, ‘region’, ‘projects’, ‘governance’, ‘policy’, ‘development’ and ‘cooperation’ showing an intense preoccupation for a formalized relation of cross-border cooperation and for a careful planning of the objectives and their achievement (‘impact’, ‘planning’, ‘implementation’, ‘management’). The institutional level of actors involved in cooperation is also discussed in some CBCS using words like: ‘governance’, ‘local’, ‘transnational’, but it is less frequent topic of discussion.

Another objective of this research was to identify the functional linkages within a CBCS and the main cooperation policies. Dense occurrence of words which designate themes of cooperation shows a high interest for the respective themes. Also, the fact that they are part of large clusters of words with strong connections between them indicates an intense preoccupation for those themes that were described in the previous sections.

The existence of common language throughout the three directions of cooperation shows that selected regions are well integrated (possibly also the reason why we found more official documents for these regions) and there is a good coordination between the policies inside that CBCS. It also suggests the acknowledgement that social and environmental development is strongly connected to economic development (although we most of the common themes were identified between the society and environment topics).

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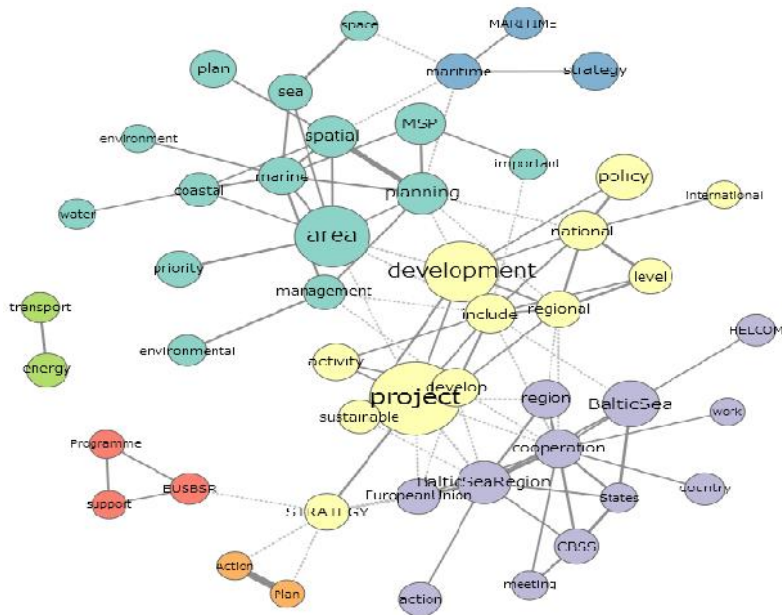
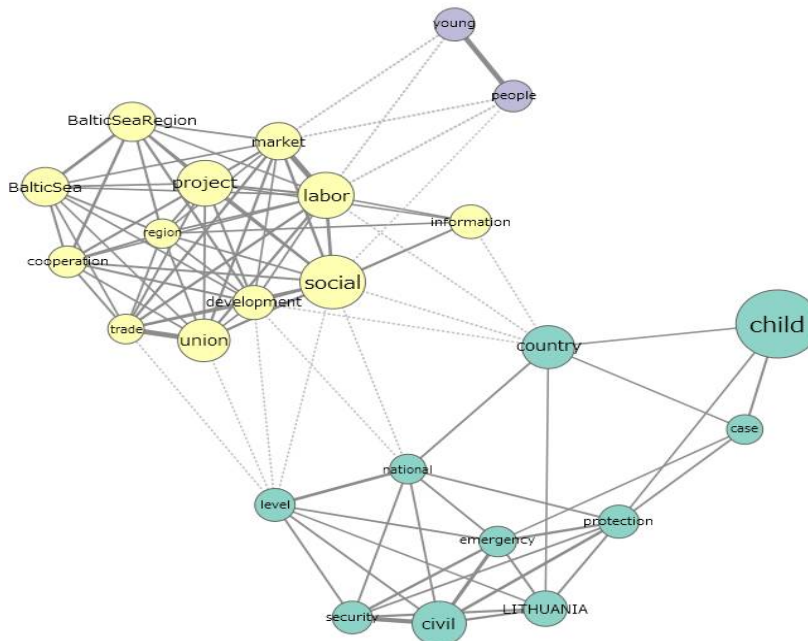


Figure 1. The effect of the number of trials on the number of correct responses.



Source: own computations

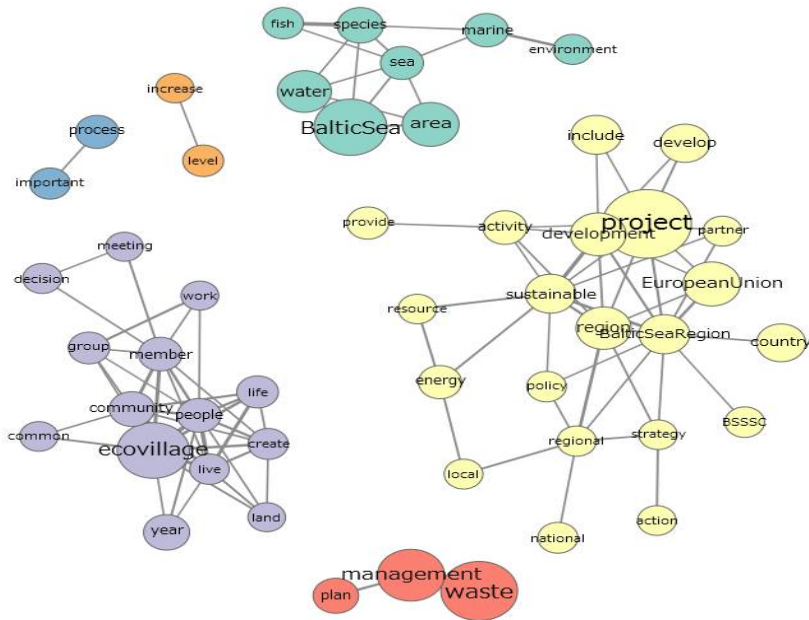
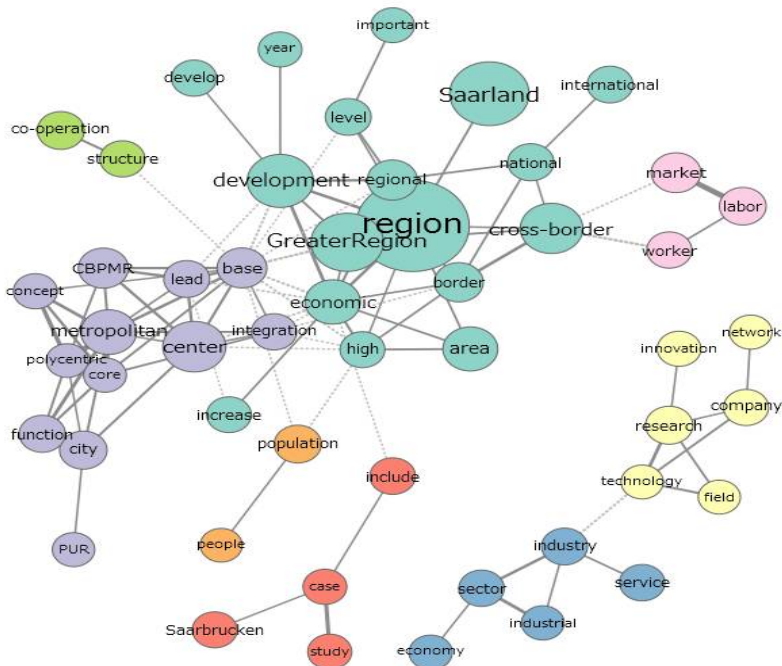
Figure 3. Co-occurrence maps of cooperation themes in the Baltic Region – environmental dimension**Figure 4.** Co-occurrence maps of cooperation themes in the Greater Region – economic dimension

Figure 5. Co-occurrence maps of cooperation themes in the Greater Region – social dimension

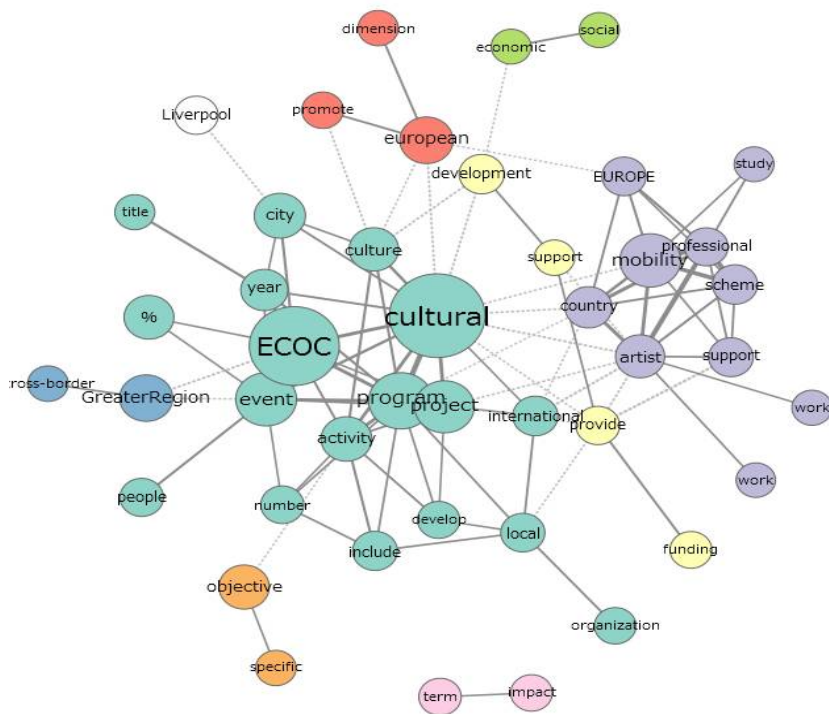


Figure 6. Co-occurrence maps of cooperation themes in the Greater Region – environmental dimension

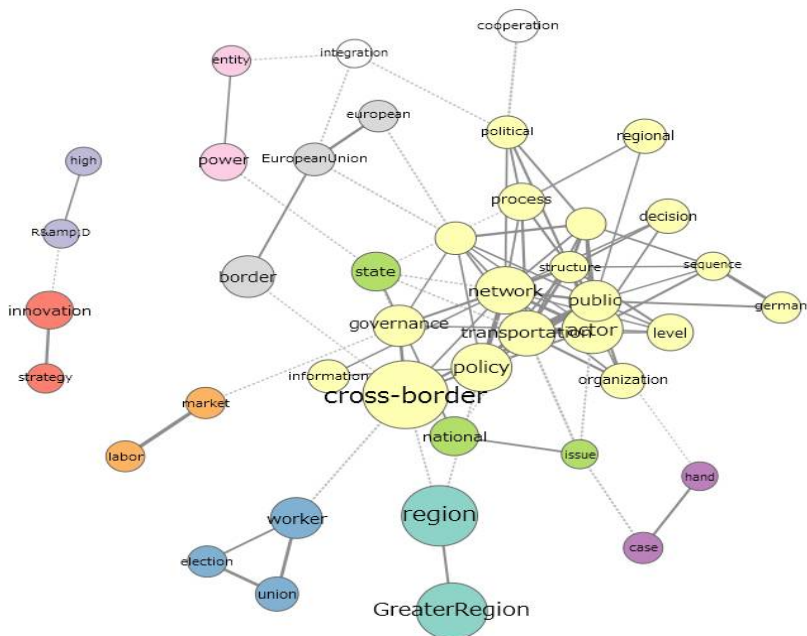


Figure 7. Co-occurrence maps of cooperation themes in the Nordic Region – economic dimension

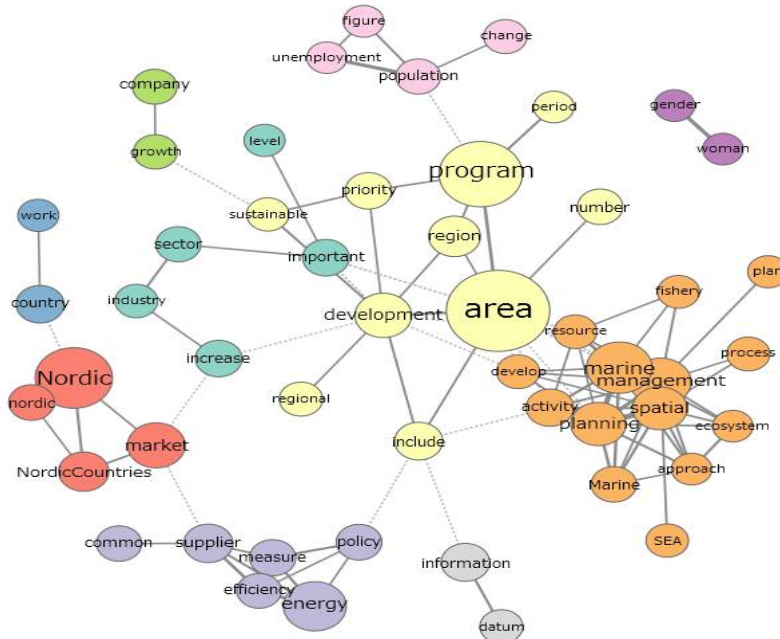


Figure 8. Co-occurrence maps of cooperation themes in the Nordic Region – social dimension

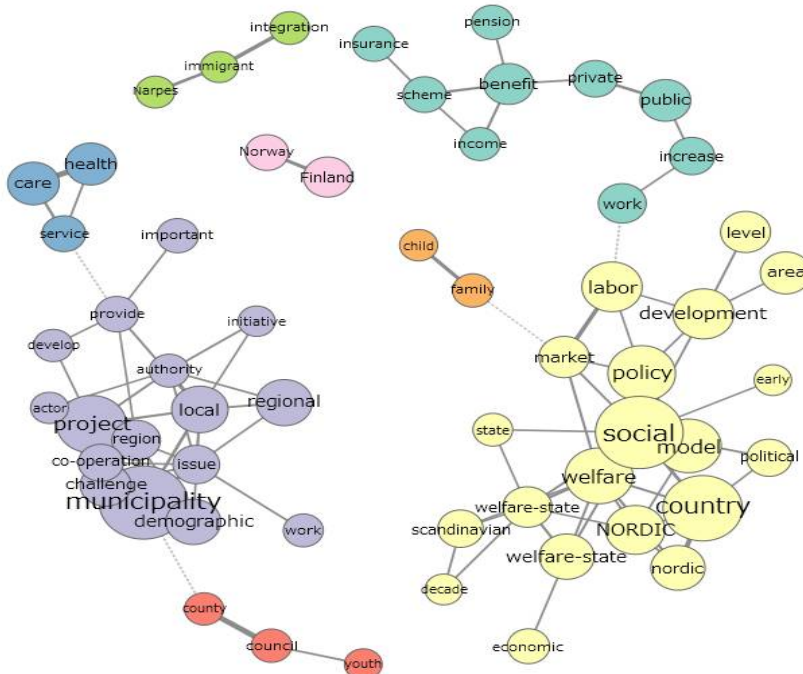


Figure 10. Co-occurrence maps of cooperation themes in the Oresund Region – economic dimension

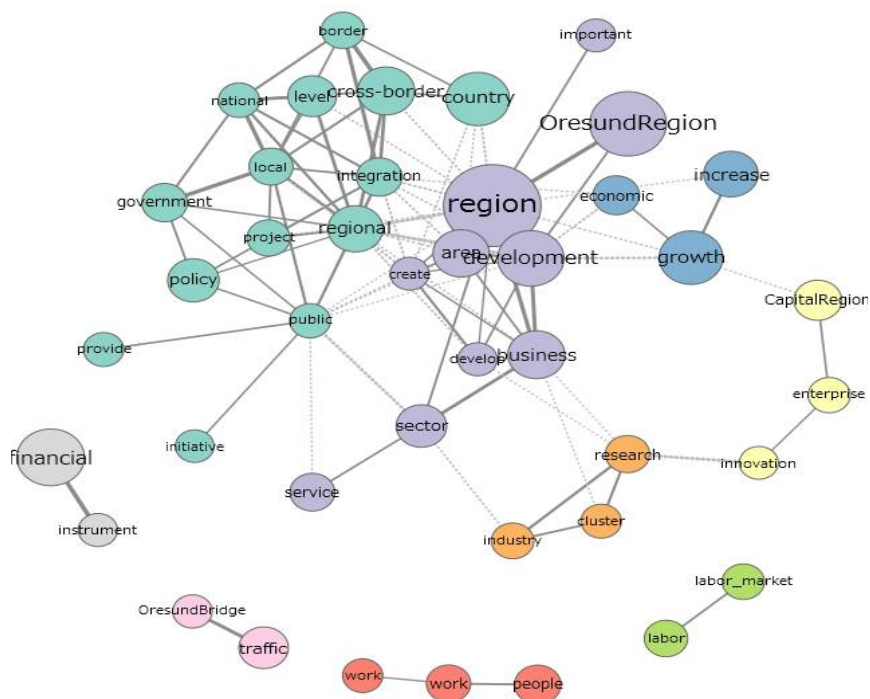
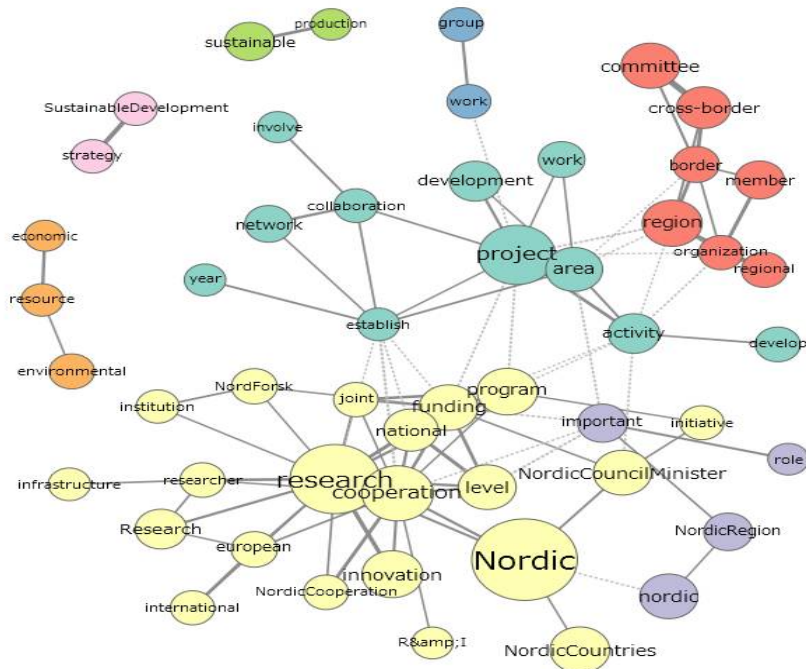
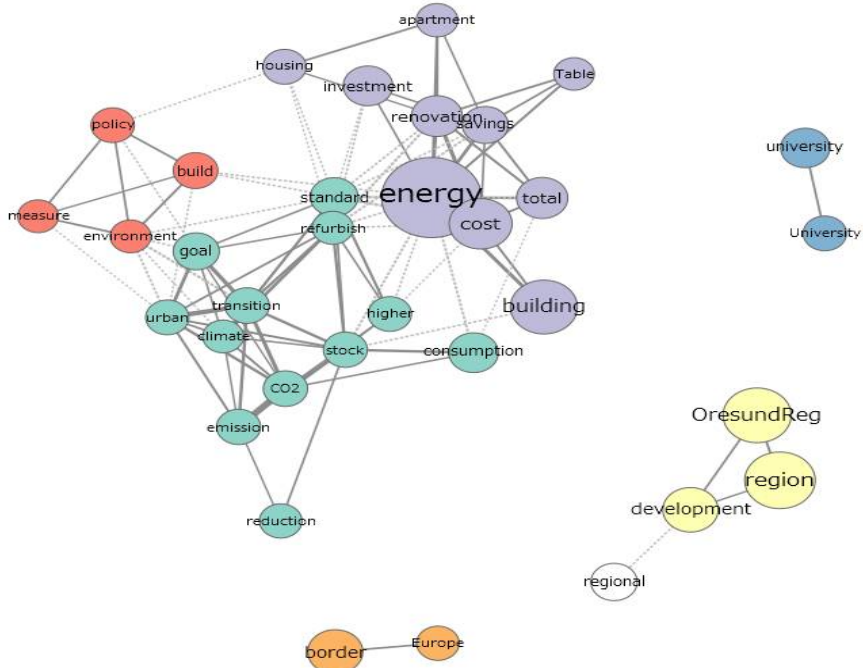
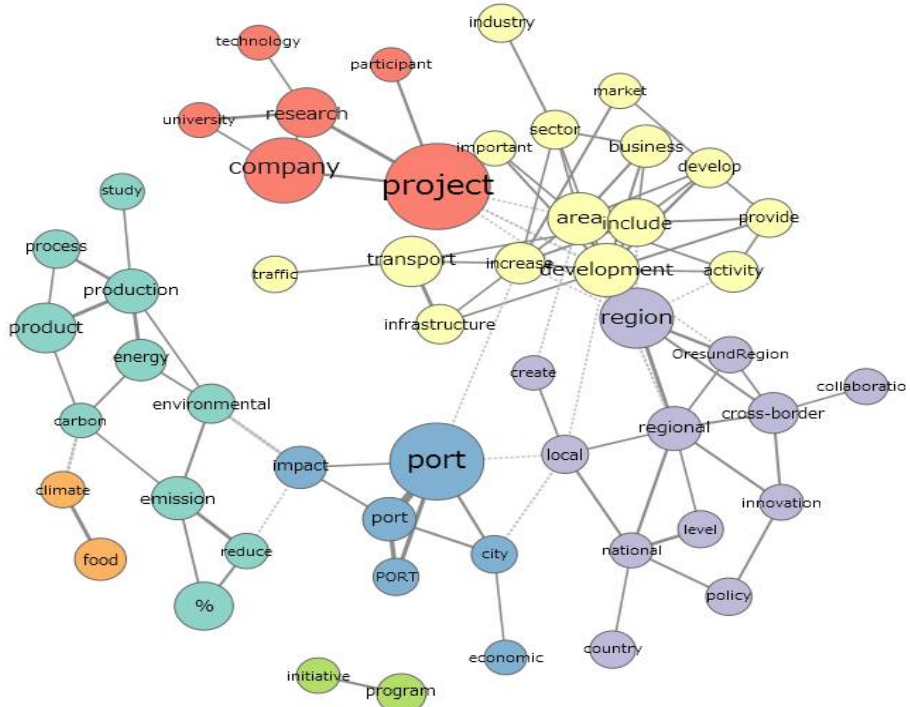


Figure 11. Co-occurrence maps of cooperation themes in the Oresund Region – social dimension**Figure 12.** Co-occurrence maps of cooperation themes in the Oresund Region – environmental dimension

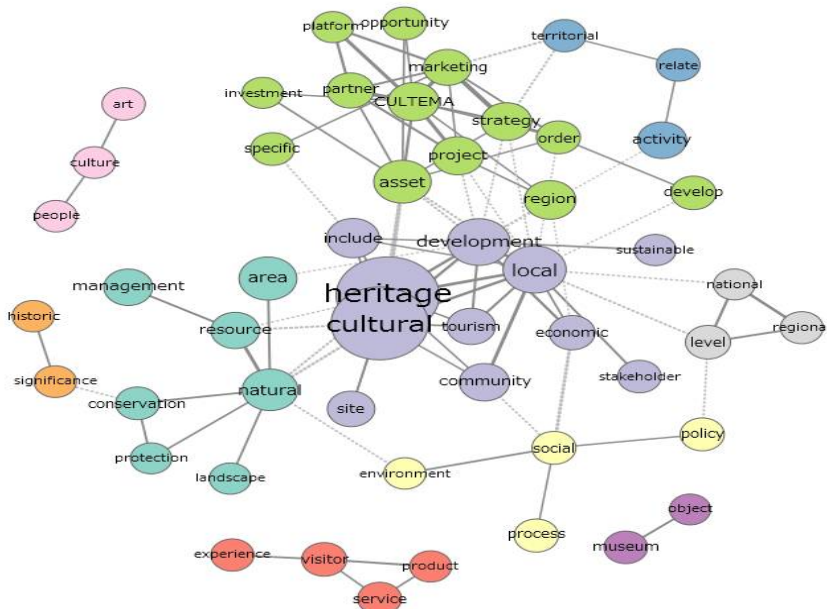
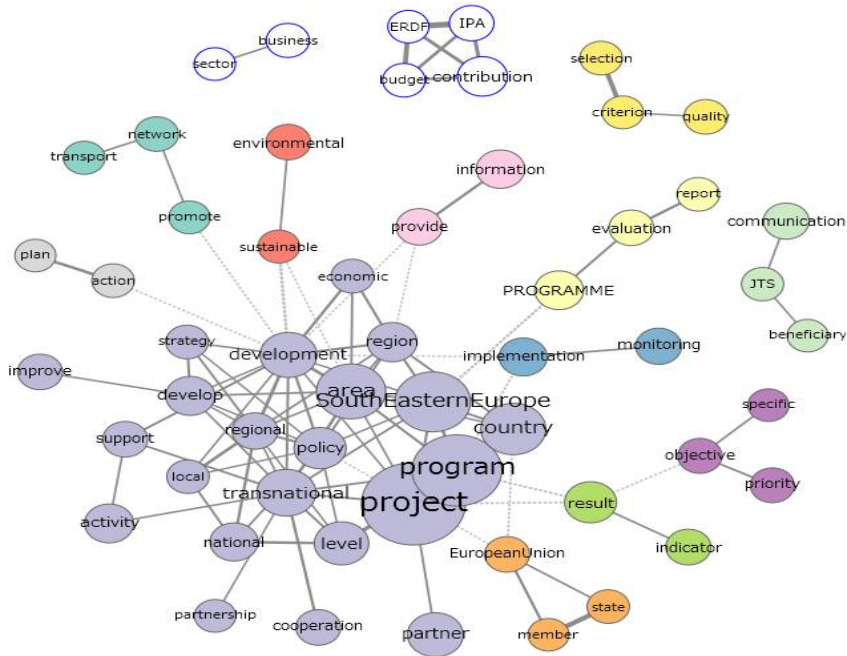
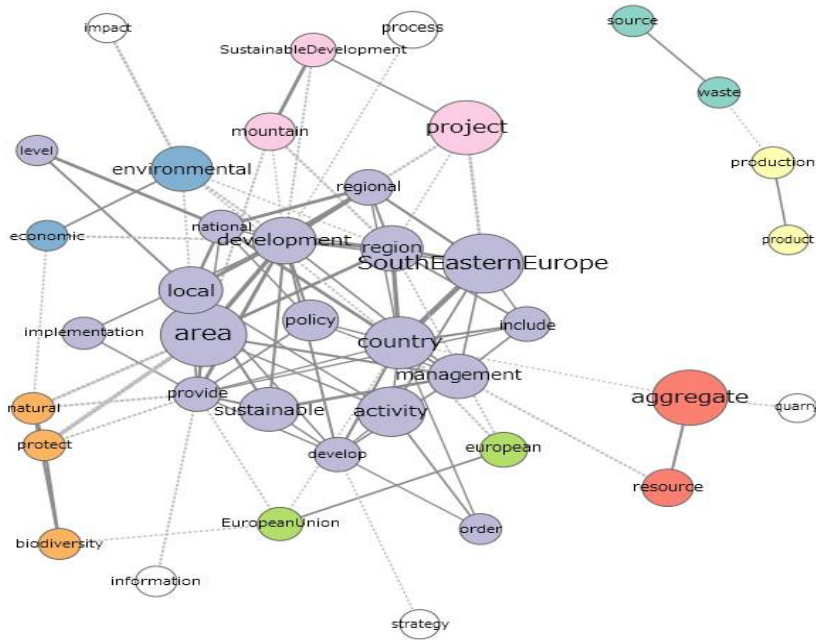


Figure 15. Co-occurrence maps of cooperation themes in the SEE Region – environmental dimension



Source: own computations



STUDY ON TAX REVENUES IN ROMANIA AS CONTRIBUTOR TO THE EUROPEAN UNION BUDGET

Sergiu-Bogdan CONSTANTIN*, Mihaela-Nicoleta BACANU**

Abstract: *Romania is a contributor to the EU budget. Some of Romania's tax revenues go to the EU budget. Romania collects adversely the taxes and fees because of tax evasion, which also affects the Community budget. Indicators that track the evolution of tax evasion and tax revenues were calculated: the effective multiplier of tax evasion, the structural homogeneity coefficient and the tax evasion share of the total tax revenues during 2006-2013 to observe the developments since EU accession. Tax evasion occurred most in the VAT then to the social insurance fund. Since joining the European Union VAT evasion increased, VAT revenues are much lower than tax evasion. If Romania's taxes were collected at its maximum rate there would be no financial crisis. So the main effort should be directed at reducing VAT evasion and then the evasion related to the social insurance contributions.*

Keywords: tax revenues; tax evasion; Romania; European Union

Introduction

The revenue sources of the European Union include contributions from Member States, the import duties on products from outside the European Union and fines on companies which do not comply with the European standards. EU countries agree on the size of the budget and how it will be funded in the coming years. The EU budget supports economic growth and job creation, and Romania is a directly contributor. Under the cohesion policy, it finances investments in order to mitigate major economic differences between EU countries and regions. It also contributes to the development of rural areas in Europe (European Commission, 2015). Tax systems of the member countries and the way in which they collect taxes influence the EU budget. The tax system is a component of the financial system and includes taxes imposed in a state which gets an overwhelming part of its public revenues, each tax having a specific contribution and role in the economy of Romania as a member state of the European Union.

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Taxes finance the activity of the state, finance the state budget of Romania and thus the one of the European Union. However taxes are the instruments through which the state redistributes income and wealth and, moreover, they are an integral part of the fiscal policy of the state and of the European Union, being used to stabilize the aggregate demand. We can say that the taxes paid by individuals and legal entities can be considered as remuneration for the services of any nature that ensure the state or its institutions.

In Romania, according to the structure of the state budget, current budget revenues consist of tax revenues (direct taxes, indirect taxes, compulsory social contributions) and non-tax revenues (revenues from autonomous administrations, public institutions, consular fees, etc.) (Constantin, 2011). Direct taxes are nominally charged to individuals and legal entities, depending on their income or wealth, based on tax rates set by law. In general, the subject and the payer are the same person, and thus we can say that this type of tax has a direct bearing on the subject payer. Indirect taxes are related to expenditure, so they are levied during the sale of goods and provision of services. By law, a subject of tax is assigned to another individual or legal entity than its bearer. Depending on their form of manifestation, indirect taxes are grouped into: consumption fees, income related to tax monopolies, customs duties, fiscal charges, stamp duties, consular fees and registration fees. Consumption fees have two forms: consumption fees on product, known as excise and general taxes on sellers, practiced as VAT or tax on gross or net turnover (Iordache *et al.*, 2005).

Compulsory social contributions are paid by individuals who derive income from salaries, income assimilated to salaries and retirement income as well as by persons under protection or in state custody. They consist of social security contributions, health insurance contributions, contributions for holidays and health insurance allowances, unemployment insurance contributions, insurance contribution for work accidents and occupational diseases, contribution to the guarantee fund for payment wage claims (Tax Code, Title IX²).

1. Fiscal system in Romania in the EU context

In Romania the tax system is characterized by an adverse collection of taxes and fees with an inefficient administration and an excessive bureaucracy, a relatively low tax base with many legal exemptions and deductions and a high tax evasion. This aspect has often attracted criticism of the EU officials since Romania is unable to contribute effectively and sufficiently, through an adverse collection. Tax evasion is theft by any means, in whole or in part, from the declaration and payment of tax obligations to the state budget. Taxation in Romania is undoubtedly pointless for the Romanian taxpayer, no matter how civic he may prove to be. It is, moreover, a burden and the cause of public discontent when public power does not handle properly the money pushing the taxpayer to become an escapist and not pay the taxes and fees he owes.

The decrease of budget revenues is caused by the decrease of the collection of taxes and fees, and by an increase in tax evasion. Given that the level of expenditure is higher than the budget revenues, the budget deficit occurs at EU and



national level. This deficit can be covered primarily from loans that the state has to engage both from the inside and the outside. The level of budgetary revenues is influenced by a number of factors such as: economic growth expressed in the growth of the GDP; monetary factors (interest, inflation); price level; tax rate level; tax efficiency; level of tax collection in relation to the level of expected tax revenues. The increase of tax revenue should exceed the economic growth. In the EU member countries, both tax revenues and economic growth differ from country to country, this aspect further highlights the gap between the member countries.

Settlement strategies of taxes based on the policy objectives of the European Union and the Romanian state in the fiscal area, the influence of fiscal discipline in combating the underground economy and tax evasion, the improving of methods and procedures used by the fiscal system to settle, levy and control taxes, are problems of utmost importance for ensuring the national and community budget supply system with minimum required resources (Constantin, 2009).

To enable the establishment of certain measures to prevent and combat tax evasion and also to increase tax revenues, in this study we calculate some indicators that track the evolution of tax evasion as well as tax revenue: the effective multiplier of tax evasion, the structural homogeneity coefficient both of tax revenues and tax evasion and tax evasion share of total tax revenues between 2006 and 2013. We have also considered necessary a research in the mentioned period in Romania to observe the developments in tax revenues and tax evasion since EU accession.

2. The situation of tax revenues and tax evasion in Romania

In order to calculate the proposed indicators, it is necessary that the evolution of tax revenues and tax evasion in the period of interest should be known and analyzed. The study was based on the situation of tax revenues and tax evasion in Romania, between 2006 and 2013 and under these circumstances the concerned indicators were calculated.

The study on evolution of tax revenues in Romania was conducted for the period of 2006-2013 based on the data obtained from the Ministry of Finance. Tax revenues analysis was made in Romania on types of taxes: income tax, social insurance contribution (SIC), VAT, profit tax, excise and total. Data on tax revenues in Romania, between 2006 and 2013, are presented in Table 1.

Table 1. Evolution of tax revenues in millions of Lei

Types of taxes	2006	2007	2008	2009	2010	2011	2012	2013
Profit tax	7939	10558	13046	11893	10115	10309	10854	10926
Income tax	11166	15761	19875	19937	18811	19797	21928	24001
VAT	27763	31243	40875	34322	39246	47917	50516	51827
Excise	10588	12512	13599	15579	17379	19105	20260	21106
SIC	32981	38843	48420	47872	45697	50637	50637	54379
Total of tax revenue	90438	108917	135815	129604	131248	147766	154197	162239

Source: Ministry of Finance (2014), *State Budget*, available at: www.mfinante.ro

The study on evolution of tax evasion in Romania was conducted for the period between 2006 and 2013 based on the data collected in the 2013 Annual Report of the Fiscal Council. Tax evasion analysis in Romania was made on types of taxes: income tax, social insurance contributions (SIC), VAT, profit tax, excise and total. Data on the level of tax evasion in Romania, between 2006 and 2013, are presented in Table 2.

Table 2. Evolution of tax evasion in millions of Lei

Types of taxes	2006	2007	2008	2009	2010	2011	2012	2013
Profit tax	2555	3126	3993	3237	3512	3126	2624	2794
Income tax	1798	2392	3009	4366	5093	4968	4852	4749
VAT	15067	29982	38085	40156	50347	57476	72399	76747
Excise	1505	3137	2194	2805	3663	2616	2323	2438
SIC	6267	8015	9357	14052	16393	15989	15617	15285
Total of tax evasion	27192	46652	56638	64616	79008	84175	97815	102013

Source: Fiscal Council (2014), *Annual Report 2013*, available at www.consiliulfiscal.ro

Given the situation of tax revenues and the situation of tax evasion between 2006 and 2013 we can proceed to the calculation of the proposed indicators.

3. The effective multiplier of tax evasion

The effective multiplier ('M' coefficient) of tax evasion (Vacarel *et al.*, 2006, p. 461) expresses the number of monetary units of income taxes and fees to the state budget (Tax Revenues) collected for a monetary unit of tax evasion. In other words, it shows to what extent one monetary unit of tax evasion of tax revenues is covered.

$$M = \frac{\text{Tax Revenue}}{\text{Tax Evasion}}$$

In Table 3 we calculated the effective multiplier on tax evasion on profit tax, income tax, VAT, excise and social insurance contributions 2006 and 2013 based on the data in Tables 1 and 2.

Table 3. The effective multiplier (coefficient) of tax evasion

Types of taxes	2006	2007	2008	2009	2010	2011	2012	2013
Profit tax	3.1072	3.3776	3.2672	3.6741	2.8802	3.2979	4.1366	3.9104
Income tax	6.2103	6.5889	6.6052	4.5664	3.6935	3.9850	4.5195	5.0539
VAT	1.8426	1.0421	1.0733	0.8547	0.7795	0.8337	0.6977	0.6753
Excise	7.0353	3.9885	6.1985	5.5541	4.7444	7.3031	8.7217	8.6571
SIC	5.2627	4.8463	5.1747	3.4068	2.7876	3.1670	3.2424	3.5577
Total	23.4582	19.8433	22.3188	18.0561	14.8852	18.5866	21.3179	21.8544

Source: author's calculations

We believe that this coefficient shows existing reservations on financing the budget deficit during the budget execution of the analyzed years 2006-2013. Regarding the VAT there are no reserves on financing the deficit since 2009.

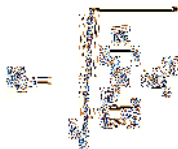


Starting with 2009 the number of monetary units of income tax for one unit of tax evasion is smaller than one which means that the VAT evasion is higher than the tax revenues from VAT. The number of monetary units collected to the budget of VAT for one unit of VAT evasion has been decreasing since 2006 (1.8426) until 2013 (0.6753) which means that increasingly less money from VAT is charged to the budget. In other assessed taxes and also on the total report there were reservations on the line regarding the financing of the budget deficit, the situation is stable and does not register major fluctuations.

4. The structural homogeneity coefficient of tax revenues and tax evasion

It is also important to know the structure of tax revenues and tax evasion phenomenon to determine what types of taxes have the largest share in the state budget and in which the tax evasion most manifests. The structural homogeneity coefficient of tax revenue and tax evasion can be calculated only after establishing their percentage structure. To see the mutations produced in the structure of tax revenues and tax evasion, we can call on the structural homogeneity coefficient, known as Onicescu informational coefficient ('K') (Vacarel *et al.*, 2006, p. 462).

With this coefficient it is measured the degree of homogeneity or heterogeneity of relative structures that characterize a phenomenon, in this case, the tax evasion and tax revenues phenomenon.



In which:

K = structural homogeneity coefficient or Onicescu informational coefficient;

X_i = share (as coefficient) of the 'i' element in the total of the analyzed phenomenon.

The structure of tax revenues by type of taxes and fees between 2006 and 2013 is presented in Table 4. According to the data in Table 1 it was calculated how much it represents the percentage of the profit tax, income tax, VAT, excise duty and the social insurance contributions (SIC) of the total tax revenue and then it was applied the structural homogeneity coefficient 'K'.

Table 4. The structure of tax revenues

Types of taxes	2006	2007	2008	2009	2010	2011	2012	2013
Profit tax	8.78%	9.69%	9.61%	9.18%	7.71%	6.98%	7.04%	6.73%
Income tax	12.35%	14.47%	14.63%	15.38%	14.33%	13.40%	14.22%	14.79%
VAT	30.70%	28.69%	30.10%	26.48%	29.90%	32.43%	32.76%	31.94%
Excise	11.71%	11.49%	10.01%	12.02%	13.24%	12.93%	13.14%	13.01%
SIC	36.47%	35.66%	35.65%	36.94%	34.82%	34.27%	32.84%	33.52%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
K	51.37%	50.30%	50.83%	50.31%	50.46%	51.20%	50.76%	50.76%

Source: author's calculations

From Table 4 it is observed that the SIC and the VAT have the largest share of tax revenue, and they are the most important. The structure of VAT in total of tax revenues has slightly increased, but not significantly, even if the VAT rate increased by 5 percentage points in 2010. In 2010 the structure of VAT increased by 3.42 percentage points compared to 2009, but it is 0.8 percentage points lower than the VAT structure from 2006. Of course that comparing the structure of VAT of 2010 to the one of 2006 we must keep in mind the fact that between these years there has been an event that affected adversely the economy, namely the financial crisis. Thus, in this period many companies did not resist the financial crisis and disappeared from the market, reducing this way the market activity, and thus the tax revenues fell.

The value of the structural homogeneity coefficient remains approximately constant from one period to another, which means that the structure of tax revenues by category of taxes is relatively constant, meaning that the importance of analyzed taxes of the total tax revenues does not change significantly.

The structure of tax evasion on types of taxes between 2006 and 2013 is presented in Table 5. According to the data in Table 2 it was calculated the percentage of the profit tax, income tax, VAT, excise and SIC of the total tax evasion and then the structural homogeneity coefficient 'K' was applied.

Table 5. The structure of tax evasion

Types of taxes	2006	2007	2008	2009	2010	2011	2012	2013
Profit tax	9.40%	6.70%	7.05%	5.01%	4.45%	3.71%	2.68%	2.74%
Income tax	6.61%	5.13%	5.31%	6.76%	6.45%	5.90%	4.96%	4.66%
VAT	55.41%	64.27%	67.24%	62.15%	63.72%	68.28%	74.02%	75.23%
Excise	5.53%	6.72%	3.87%	4.34%	4.64%	3.11%	2.37%	2.39%
SIC	23.05%	17.18%	16.52%	21.75%	20.75%	18.99%	15.97%	14.98%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
K	61.35%	67.40%	69.91%	66.52%	67.63%	71.28%	75.97%	76.93%

Source: author's calculations

As shown in Table 5, the identified tax evasion occurred mostly at the VAT, over 50% throughout the analyzed period. So, VAT has the largest structure of total tax evasion and has an increasing evolution from 55.41% in 2006 to 75.23% in 2013. After VAT, the social insurance contribution (SIC) follow it in the share of the total of tax evasion but has a slight decrease from 23.05% in 2006 to 14.98% in 2013.

The structure of VAT in the total of tax evasion had fluctuations during 2006 and 2009 increasing by 8.86 percentage points in 2007 (the year of accession to the European Union) compared to 2006 and decreasing by 5.09 percentage points in 2009 compared to 2008. In the analyzed developments one can observe that the structure of VAT in tax revenues decreased in 2009 compared to 2008 by 3.26 percentage points, and 2009 was the year that reflected the financial crisis effects installed in 2008. It can be noticed that after Romania joined the EU in 2007, VAT evasion has an increased growth rate. So starting with the accession to the European Union, the VAT evasion phenomenon has increased.



Since 2010, when the VAT rate increased by 5 percentage points from 19% to 24%, the total structure of VAT evasion increased progressively, reaching 75.23%. In our opinion, the increase of the VAT rate influenced the increase of VAT structure in the tax evasion total.

As shown in Table 5, the value of structural homogeneity coefficient increases from one period to another, which means that the structure of tax evasion on categories of taxes records a process of heterogeneity, meaning that escapists focused on VAT or, in other words, increased VAT evasion. Therefore, the main effort should be directed at reducing VAT evasion and then at the SIC.

5. Share of tax evasion from tax revenues

Following the evolution of tax evasion based on the share of revenue tax evasion (P %) allows to determine how large tax evasion is in relation to total tax revenue and profit tax, income tax, VAT, excise and SIC. Table 6 shows the share of tax evasion from tax revenues between 2006 and 2013. The calculations in Table 6 were made based on the data in Tables 1 and 2, applying the formula below.

Table 6. Evolution of tax evasion share from tax revenues

Types of taxes	2006	2007	2008	2009	2010	2011	2012	2013
Profit tax	32.18%	29.61%	30.61%	27.22%	34.72%	30.32%	24.17%	25.57%
Income tax	16.10%	15.18%	15.14%	21.90%	27.07%	25.09%	22.13%	19.79%
VAT	54.27%	95.96%	93.17%	117.00%	128.29%	119.95%	143.32%	148.08%
Excise	14.21%	25.07%	16.13%	18.00%	21.08%	13.69%	11.47%	11.55%
SIC	19.00%	20.63%	19.32%	29.35%	35.87%	31.58%	30.84%	28.11%
Total	30.07%	42.83%	41.70%	49.86%	60.20%	56.97%	63.44%	62.88%

Source: author's calculations

If tax evasion meant tax revenues during the analyzed period then they would have increased considerably with the proportions in Table 6. So Table 6 shows how high the tax revenues would have been between 2006 and 2013 if there had been no tax evasion.

According to Table 6 share of tax evasion in relation to tax revenue is increasing the total for the analyzed period, from 30.07% in 2006 to 62.88% in 2013, the most significant role being the VAT evasion. Basically the share of VAT evasion in relation to VAT revenue is the highest, is increasing. Since 2009 the share of VAT evasion in relation to VAT revenues exceed 100% which means that since 2009 tax evasion is higher than tax revenues, by far exceeding them. From 117%, in 2009, it reached to 148.08% in 2013. As an overview, from 2006 to 2013 the share increased three times.

Conclusions

Tax evasion is very high in Romania and it is growing, VAT has the highest share of total GDP and tax evasion, as it has been shown in other works (Constantin, 2014). In the case of indirect taxes it is an economic constraint.

During the periods when the economy recorded an ascending course, indirect taxes can have high tax efficiency; in return, during the periods of crisis and depression, when production and consumption recorded a rebound, revenues from indirect taxes followed the same evolution, jeopardizing the achievement of budget balance or leading to widening the budget deficit. Thus, indirect taxes show a heightened sensitivity to the economic situation.

If all money owed on taxes were collected, then tax revenues would increase considerably and there would be no major problems with the state budget and with the covering of the budgetary expenditure. VAT has the highest share of tax evasion and possibly a full collection at the state budget, thus this tax would have the largest share of tax revenues, the greatest contribution to the state budget. This would mean that the share of indirect taxes would overtake that of direct taxes in the total of tax revenues to the state budget. Resorting to a more widely scale as regarding indirect taxes, it should be viewed in close connection with the income and wealth level made (owned) by different categories of individuals and companies. Given that the Romanian economy has a lower performance compared to that of developed countries and the contribution and efficiency of income tax as well as of wealth tax is lower. If to all these we add the convenience and the relatively low cost of collecting consumption taxes and other indirect taxes, we find the explanation for indirect taxes (Vacarel *et al.*, 2006, p. 428). In developed countries, as a rule, the contribution of indirect taxes to the state's tax revenue is lower than that of direct taxes.

Very high evasion of VAT in Romania directly influences the EU budget as a percentage of the harmonized VAT receipts of each Member State (around 0.3) is generally transferred to its budget. A thorough reform of the administration of taxes in Romania targeted towards increasing tax collection is essential, being capable of creating the fiscal space needed to reduce the tax burden on employment, which is at a very high level today.

So the evolution of tax revenues in the budget of a state depends on the evolution of the economy of that country, of its economic situation and also of the keeping under control of the evolution of tax evasion. The avoidance of running out of control of tax evasion during the evolution of our society in the role of European country requires strong further actions seeking preventive measures and also the improvement of the control system of economic subjects regarding the compliance with tax laws.

As said before in other researches, the position of a member state of the European Union requires further institutional pressure on specific internal factors which determine the development of the analyzed phenomenon, and in particular by fighting corruption – as a driver of tax evasion, action that will lead to diminishing the underground economy and also obstructing its power sources while limiting access to entities in conflict with the law in decision making in key sectors of the economy (Constantin, 2014).



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THE ROLE OF THE COMMITTEE OF THE REGIONS IN THE IMPLEMENTATION OF "EUROPE 2020": MECHANISMS, ACTIONS, PROSPECTS

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Abstract: *This article examines the institutional tools and mechanisms that the Committee of the Regions is endowed with, in the process of implementing and checking the progress of the Europe 2020 Agenda. The emphasis first lies on the traditional consultative nature of the aforementioned body, which has nevertheless been striving for more prominence. The previous role in the evaluation of the Lisbon Strategy has provided the CoR with some experience, to the extent that the Monitoring Platform it is utilising in its activities pertaining to Europe 2020 are coherent and quite complex. We have performed an analysis of the current activities conducted by the CoR under the auspices of the Platform, including text analyses on its latest releases and assessments of its consultation and networking activities. Some recommendations have been filed to enhance the subnational dimension of the Europe 2020 Agenda, in the light of the findings of CoR panels.*

Keywords: Europe 2020; Committee of the Regions; Monitoring Platform; consultative body; Country-specific Recommendations

1. A view on the Committee of the Regions, in the post-Lisbon Agenda

One of the more recent institutional additions of the European Union, the Committee of the Regions, was created in 1994, in the light of the new decision-making approach initiated by the Treaty of Maastricht, as a consultative body which reflects the ever more prominent subnational dimensions of the Union. In the light of the Regional Policy and the management of the cohesion instruments at a regional level, the need for a body that might represent the various sub-national levels the member states are divided into has been growing stronger. Nevertheless, as the configuration of sub-national units still varies from one country to another, depending, amongst others, on their more or less centralised nature, the heterogeneous character of the CoR has only become more prominent in recent years, with the Eastern enlargement of the European Union, prompting us to wonder as to the usefulness of an increase in competences of the aforementioned body. (Panara and De Becker, 2010, p. 77)

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It is to be mentioned from the very start that the original purpose of the CoR was that of giving pertinent council to the decision-making triangle, under the auspices of the co-decision procedure, amid the growing impact of community legislation on the regional level, in extenso. The emergence of the democratic deficit and the resulting Eurosceptical political trends rendered the CoR more necessary and more present in terms of opinions provided either *de facto*, or on its own initiative, as non-binding input for decisions. The weight of the voices of regions is inherently different from one country to another and, indeed, from one region to the next, with lobbying becoming a powerful tool in the hands of affluent sub-national units in various industrial and service branches. (Breuer, 2012, p. 70)

The functioning of the CoR did not meet with any major obstacles, as the provisions regulating its activity borrowed configuration elements from the already-established European Economic and Social Committee, whose prominence in decision-making still bears much resemblance to the one of the newer consultative body. Sharing one of the most beautiful buildings in Brussels, in the European neighbourhood, namely the Jacques Delors headquarters, is yet another element that the two bodies have in common. (State, 2015, p. 156)

Our analysis in this article shall focus on the role of the CoR with regard to the implementation and additional mechanisms pertaining to the newest multiannual strategy of the European Union, currently in progress, in the light of the principles that lie at the basis of the functioning of the Committee. The latter revolve around the consolidated subsidiarity that has emerged in the aftermath of the intricate debate surrounding the Treaty of Lisbon and its particularly thorny ratification. (Panara, 2010, pp. 81-82) The fact that decisions are intended to be taken at the level which is as close to EU citizens as possible would normally render the CoR indispensable in decision-making, albeit the function of ensuring that subsidiarity rules are abided by is fulfilled by a joint endeavour encompassing the European Parliament and national legislators. That said, the multi-level governance that has made the EU stand out as a unique form of supranational construct would be incomplete in the absence of a genuine entity whose purpose is to protect the interests of its regions, as opposed sometimes to those of member states *per se*. In this respect, the CoR is undoubtedly meant to serve the role of a transparency forum, operating in the interest of local autonomies and regions in general.

This being said, it is worth emphasising that, according to the treaties and, more precisely, to the Treaty of Lisbon, the prerogatives of the CoR shall not exceed those of a consultative body, with the European Commission and Council of Ministers being obliged to resort to the consultation of the CoR whenever a decision taken at either level is likely to affect the regional dimension of the Union. To elaborate, such consultations can be either mandatory or optional, if the EU institutions that are part of the decision-making triangle deem them necessary, even outside the framework established by the treaties. On the other hand, the CoR itself can choose to emit an opinion on any piece of legislation that pertains to the regional level, so as to raise awareness on matters that should be addressed by the EU. Moreover, in recent years, with the adoption of the Treaty of Lisbon, the CoR

has received the right to submit a plea to the European Court of Justice, on matters germane to the respect of the subsidiarity principle in the decision-making mechanisms at the Community level. (Piris, 2010, p. 235) This prerogative has undoubtedly provided the Committee with more prominence, even though there persist at least two institutional factors that decrease its stance in the complicated institutional framework of the Union. The former consists of the fact that it remains a body of the EU, inferior to the no fewer than seven institutions stipulated by the treaties - a number increased by the Treaty of Lisbon -, while the latter pertains to the nature of the legal documents the CoR is entitled to issue, namely recommendations, resolutions and opinions, none of which are endowed with a legally-binding nature.

As far as the structure of the CoR is concerned, it is worth noting that the same EU principle applies in the configuration of its 350 permanent seats (and an equal number of alternates), allocated to each member state on the grounds of digressive proportionality, albeit with more uniformity, ranging from a maximum of 24, in the case of the four largest member states by population, to a minimum of 5, for the three smaller ones in this respect. (Bache *et al.*, 2012, p. 235) Depending on the national regulations, the members, all of whom are elected at the local or regional levels, are local councillors, regional leaders (in Romania's case, for instance, presidents of the County Councils) and mayors. Proportionality between the most important parties from the European political families is paramount in the allocation of seats, with members benefitting from five-year mandates.

Once we have assessed the situation of the CoR in the current state of affairs within the EU, and acknowledged that it retains a consultative role, it is important to comprehend the nature of the Europe 2020 Agenda, in a nutshell, and the extent to which such a body as the CoR is likely to play a significant role in its implementation and monitoring.

2. Europe 2020 - priorities, mechanisms, assessments

The EU Commission-managed ten-year strategy of the Union which is currently mid-way through, namely Europe 2020, is a more complex heir to the somewhat ambiguous Lisbon Strategy. Constructed as a growth and development endeavour, the agenda deals with current economic and social concerns of the EU and its member states and instils a complex implementation and monitoring mechanism, reminiscent of the useful, albeit not always comprehensible, tools developed under the Project Cycle Management framework.

While it is not our intention at this time to perform a thorough analysis of Europe 2020, which we have already conducted and published in previous studies (Corpadean, 2014, pp. 267-283), we shall outline the general operational framework of the latter and then insist on the role of the CoR in the processes identified. Regardless, in not so many words, it is commendable that Europe 2020 is able to address some of the most stringent needs of the Community at this time, including the pressing matters of youth unemployment, school dropout, poverty and access to third level education. To this we may add a special focus, based on indicators and



progress milestones, on the matter of environmental protection, with such keywords as greenhouse gas emissions, energy efficiency and renewable sources of energy. Not least, member states are encouraged to spend more on research and development, amid the current geopolitical state of affairs, in which few of them are able to meet or even come close to the 3% of GDP criterion demanded by the agenda for the EU, taken as a whole. (Rodrigues and Xiarchogiannopoulou, 2014, pp. 130-131)

The implementation and monitoring processes pertaining to Europe 2020 are encompassed in the set of procedures known as the European Semester. (Steinbach, pp. 124-126) In keeping with the intricacies that define the multi-level governance system of the Union and the need to satisfy, to the extent that such a feat is possible, all the interests emanating from member states, the supranational level, regions, political families and European citizens, Europe 2020 has been endowed with its own mechanisms, which we shall attempt to briefly explain. This will enable us to subsequently address the role of the CoR as part of the European Semester and to evaluate its prominence and activity to date.

The European Semester comprises elements from the economic, budgetary and political fields, while involving all major institutional actors of the EU, in a genuine Gantt chart drafted on an annual basis, with some constants that we intend to underline in what follows. Hence, the year commences with the European Commission issuing its Annual Growth Survey, i.e. a guideline document addressing the priorities for the coming 12 months, in the light of the progress attained up to that time, along with an Alert Mechanism Report, for those countries which require special attention. (Albors-Llorens *et al.*, 2015, pp. 48-49) Then, in the spirit of the treaties, the Commission transmits the Annual Growth Survey to both Parliament and the Council of the EU, while the European Council, in the light of its impetus-provider nature, issues essential guidelines during the March summit, emphasising such aspects as fiscal coordination, macroeconomic policies and structural reforms. (Praussello, 2012, p. 193) After these supranational and intergovernmental steps, the member states kick in and prepare their own stability or convergence programmes, based on national reform priorities in the key areas stipulated by the agenda.

One particularly important tool which the Commission makes use of is the drafting of the Country-specific Recommendations, which become useful input documents in the preparation of national budgets for the coming year. These recommendations are submitted to the endorsement of the European Council and the approval of the Council of Ministers, a procedure which is normally completed by the month of July. (Novotný, 2013, p. 499) Unlike the less legally-binding Lisbon Strategy, Europe 2020 benefits from several coercive tools which prevent member states from ignoring the duties assumed, such as policy warnings and sanctions in the case of serious macroeconomic or budgetary mistakes or failures to meet the norms established by the multi-annual framework.

As with any major endeavour conducted at the EU level, the Europe 2020 Agenda should not turn into a remote initiative in the eyes of citizens. For this reason, member states should strive to involve the regional and local levels in the consultations and procedures implementing the strategy, all the more because in the

case of federal states and not only, many of the policy areas that fall under the interest of Europe 2020 are regulated at lower levels. The importance of the Committee of the Regions looms on the horizon in the light of this observation, as we shall pinpoint below, while the other key consultative body of the Union, namely the European Economic and Social Committee, has developed its own Steering Committee. The aim of the latter is to serve as a networking tool fostering the involvement of social entities, economic organisations, trade unions and the civil society per se in the discussions surrounding the key areas established by Europe 2020.

3. The Europe 2020 monitoring platform

The Platform defines itself as a “a network of regions and cities to contribute to the EU debate on smart, sustainable and inclusive growth and to monitor the implementation of Europe 2020” (CoR Europe 2020 Monitoring Platform), in keeping with the keywords that have become the leitmotifs of Europe 2020, but with special emphasis on two subnational levels that are specific of the activity of the CoR. In effect, the Monitoring Platform is a soft-power means placed in the hands of local and regional authorities throughout the EU, enabling them to provide ideas as input for the implementation and monitoring of the agenda.

This institutional tool given to the CoR so as to participate in an EU multiannual agenda is by no means a novelty, as during the enactment of the Lisbon Strategy, i.e. the predecessor of Europe 2020, the aforementioned body developed a Lisbon Monitoring Platform, although this instrument was only set in place in 2006, in the latter period of the Lisbon process. (Panara and De Becker, 2010, p. 120)

As far as the new platform is concerned, its purpose is to provide a link between the macro-goals of Europe 2020 and the subnational levels, so as to foster the involvement of such entities in the improvement and progress of the action. The Cohesion Policy is clearly influenced by the outcome of the multiannual strategy, which is why it becomes paramount to gather the appropriate feedback and indicators exhibiting the extent to which the former affects both regional development and economic and social cohesion across the Union. From the very nature of the goals established for the Monitoring Platform, it becomes evident that the means through which it is expected to fulfil its mission are in keeping with those the CoR has become acquainted with in its more or less two decades of activity, including reports, best practice exchange and information flows. In more concrete terms, there are five tools currently active within the Monitoring Platform, namely the website (with a user-friendly forum-based interface), the policy workshops (for liaisons with internal and external stakeholders), questionnaires and surveys (for swifter local and regional input), monitoring reports (available for the general public, as well as for EU institutions and bodies), and thematic initiatives (on niche subjects that arise in the monitoring activity).

In this communication-prone atmosphere, members of the Monitoring Platform take part every year in the Territorial Dialogue session conducted within



the CoR, which acts as a rather informal exchange forum with EU decision-makers invited to this event, on topics referring to the specific regional challenges of the Monitoring Platform representatives.

Who takes part in the EU 2020 Monitoring Platform? At this time, there are over 160 regions and cities across the EU that have representatives within the Platform, with an open procedure accepting applications from any eligible entity. For instance, Romania is currently represented by six participants, belonging to two levels, i.e. four cities (Cluj-Napoca Timisoara, Brasov and Cugir) and two regional bodies (the Regional Pacts for Employment and Social Inclusion North-West & Bucharest-Ilfov). As the Platform does not yield any legally binding documents, its typical activities include surveys, workshops, information exchange and consultations that may, however, become food for thought in the preparation of CoR documents within the non-compulsory decision-making at the EU level.

It was only in September 2012 that the CoR Bureau, at its Nicosia meeting, decided to establish a detailed set of procedures on the functioning of the Monitoring Platform, under the general title of *CoR's New Strategy on Europe 2020*. This gave rise to a steering committee for the Platform, led by a Political Coordinator and including a representative appointed by each political group. As an interesting fact, the Alliance of Liberals and Democrats for Europe appointed Romanian Alin Adrian Nica as a member of the Steering Committee, as mayor of the commune of Dudestii Noi, in Timis County. French socialist Michel Delebarre has led the Platform since its creation, with a second mandate that is due to end in 2020. (CoR Europe 2020 Monitoring Platform)

A number of six activities have been conducted under the auspices of the Monitoring Platform in 2015 to date (15th May), including an online consultation, a call for applications for the European Public Sector Award, an analysis of the European Semester Country Reports for 2015, an online survey conducted jointly with the OECD, a seminar on good governance and a consultation report. (CoR Europe 2020 Monitoring Platform) As a relevant case study, one that we deem indicative of the activity and role of the CoR Europe 2020 Monitoring Platform, we have opted for a brief analysis of one of the recent outputs of this entity, prior to making a general assessment on its prominence and that of the CoR per se with regard to the implementation and monitoring of Europe 2020. The document which appears to bear the most relevance in this regard is the *Territorial analysis of the 2015 Country Reports and accompanying Communication*, released in April 2015.

After a methodological explanation of how the European Commission deals with its pivotal role in the European Semester, the report outlines the improved functions of the CoR in its feedback-provider mission with respect to Country Reports, the former benefitting from three months to analyse the Country-specific Recommendations' progress for the previous year before formulating its viewpoints for the new documents. Moreover, the report refers to the 33 Country-specific Recommendations from 2014 that pertained to local and regional authorities and which were identified in 18 of the EU member states. These matters referred to "public finances, employment/social policies, public administration reform and structural reforms" and the report presented the general progress

assessment in each case, painting a rather bleak picture, and outlining the need for concrete policy interventions. On the other hand, the document explains how CSRs with specific regional or local chapters were being addressed to member states, their number and spread depending on a set of indicators that encompass GDP/capita, public administration reform and regional disparities within a country. Concrete examples of CSRs with regional disparity-related implications are given in the case of six member states, with such important issues as childcare problems in Austria, school dropout rates in Belgium, entrepreneurship in Estonia, fight against corruption in Italy, competition in Latvia, or healthcare in Croatia. (Territorial analysis of the 2015 Country Reports and accompanying Communication)

With this data in mind, the report moves on to the Country Reports produced by the European Commission for 2015, so as to once again raise awareness on the occurrence of territorial matters across the member states, as all CRs exhibit such preoccupations at this time. Interesting statistical analyses reveal that the three most common key phrases in such matters are *labour market*, *public administration* and *structural, fiscal and taxation issues*, with Finland having the most territorial problems in the CRs, namely seven. Nevertheless, overall, it is the countries with more internal regional disparities that exhibit a larger number of recommendations, with , for instance, receiving such observations in areas like Corruption and transparency, Management of EU funds, Public procurement and e-governance, as well as Administrative burden and administrative capacity (Territorial analysis of the 2015 Country Reports and accompanying Communication).

The lucid conclusions of the report stress that indeed, local and regional issues within the Country-specific Recommendations are more difficult to implement than national ones, to the extent that 63.6% of the former are described as exhibiting no or limited progress in 2014, compared to only 47% of the latter. The fact that the 2015 CRs include territorial concerns in all member states is perceived as positive by the CoR, which thereby issues the recommendation that "EU and country-level strategies for growth, jobs and the modernization of the public administration need to include a territorial dimension". Finally, the document emphasises that the member states that exhibit the most (and the most serious) problems at the local and regional levels are also those that were hit the hardest by the economic crisis, with such issues as administrative capacity, corruption and transparency at the core of the debate. (Territorial analysis of the 2015 Country Reports and accompanying Communication)

The analysis we have performed on the most recent comprehensive report pertaining to the implementation and monitoring of Europe 2020 and stemming from the CoR reveals that awareness of local and regional matters can and should be reflected within the European Semester, as the elected representatives at those levels are able to provide consistent feedback on subjects that fall into the areas of competence of the agenda. The contributions of the CoR to the analysis of the Country-specific Recommendations and the Country Reports that assess the progress of such documents, aiming to address the priorities of the new CSRs, are an important prerogative of this EU body and have played a useful part in the



European Semester, with the already known limitations stemming from the non-binding character of all documents emanating from the CoR.

4. In guise of conclusion

The CoR has become an attention-grabbing entity within the institutional framework of the EU, one that may well reflect some of the contradictions that more or less define the manner in which the Community method functions. On the one hand, we have a body - not an institution - that has been striving during the course of its still rather short history for more prominence and has not refrained from issuing opinions at key moments, on its own initiative; in so doing, it gets nearer to the undoubtedly desirable aim of the Union to consult its citizens ever more closely and to involve more locally and regionally-elected figures in consultations, if not decision-making per se. On the other hand, there is little that we have found in the work and prerogatives of the CoR, amid the ongoing European Semester, which would enable us to claim that this body is moving towards a genuinely harder stance in decision-making, as opposed to its traditional advisory role that we have become accustomed to over the years.

Even so, the actions emanating from the CoR are not to be taken for granted, as its soft position has not prevented it from acting as a lucrative networking forum, i.e. a meeting place for ideas, people who do not hold the toughest reins of power, and projects built around recurrent challenges in numerous EU regions. It is not our intent to make a judgement on the variable prominence of regions from one member state to another, let alone to refer to the Romanian case at this time, but the very fact that the CoR has been officially endowed with the Europe 2020 Monitoring Platform is a positive sign of openness towards more subsidiarity and citizens' involvement.

The implication of the CoR in the two consecutive multiannual agendas of the EU, namely Lisbon and Europe 2020, has definitely yielded numerous analytical documents which reflect the subnational concerns that ought to be echoed by concrete priorities especially in the aftermath of the economic downturn. By going over the *Consultation of European Regions and Cities on a New Strategy for Sustainable Growth*¹, a document in which the CoR performed a lucid and somewhat critical assessment of the outcome of the Lisbon Agenda, it becomes apparent that Europe 2020 was shaped with clear contributions from this body. The ongoing involvement of the CoR in the monitoring of Europe 2020 is evident and translates into such useful documents as the *Blueprint for a renewed Europe 2020 strategy from a territorial perspective*, published in December 2014, in which seven proposals are made so as to increase the effectiveness of the endeavour, from a regional and local perspective. Such priorities include target setting at a subnational level - an interesting novelty for a multiannual agenda of the Community -, more emphasis on multilevel governance, more territorial focus

¹ For further details see: https://portal.cor.europa.eu/europe2020/news/Documents/EN_Consultation%20Report.pdf

within the European Semester, better territorial connections with the Flagship Initiatives, investment support, enhanced administrative capacity and more interactive mutual learning.

Such are the current priorities stated by the CoR within the sinuous implementation and monitoring of the Europe 2020 Agenda, an endeavour which should learn from the mistakes of its predecessor and turn more often to regional and local inputs so as to become more concrete and less dependent on unquantifiable priorities, veiled in more or less ambiguous terminology. On the contrary, the SMART approach relying on a set of indicators that the monitoring of Europe 2020 depends on should collect data at as low a level as possible, and adopt sub-indicators whenever the latter serve the purpose of better assessing achievement on a limited area. The recommendations issued for countries are expected to take into account their particular problems at the subnational level, stemming from specific discrepancies, which will enable territorial units to play a better-tailored role in the common effort that is the 2020-bound strategic approach the Community is striving to direct so many resources to.

Future research on the subject will collect more reports emanating from the Monitoring Platform of the CoR and attempt to corroborate the recommendations stipulated therein with the priorities set by the Commission, with special focus on the extent to which the latter will be capable of addressing local issues more thoroughly and of verifying progress at this level in a more quantifiable fashion.

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UNIVERSITY INTERNATIONAL COOPERATION AS A MEANS FOR REGIONAL INTEGRATION AND DEVELOPMENT

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Abstract: *Programs of international cooperation in higher education claim to promote peace and intercultural understanding, contribute to development of efficient human resources as well as research and innovation. For centuries, universities were centers of progress that ensure community's development. Processes of globalization, internationalization, rapid development of information technology transform the mission of university, challenging modern universities to join forces to meet growing needs of knowledge society. The European Higher Education Area is continuously working to reduce mismatch of skills between the workforce and labor market. International cooperation in education has fundamental potential for reducing economic disparity. Ukrainian government views higher education as a means of growth and development and considers international activity pivotal in responding to global and regional change and achieving world quality standards of education. The aim of this paper is to explore potential of international cooperation in higher education in globalized world by examining selected international projects and their outcomes.*

Keywords: higher education internationalization; globalization; programs of international cooperation; international partnership

Introduction

Implications of globalization and internationalization on dynamics of society's development challenges modern higher education institutions to make an extra effort to maintain their status as a source of progress and development. Global knowledge economy puts an emphasis on quality improvement for better human resources development, which requires implementing international standards. Researchers in different fields debate on nature and possible outcomes of globalization process, however, it is clear that nowadays globalization is one of the major factors which shape higher education.

Altbach states that globalization in higher education addresses mass demand for higher education and societal needs for highly educated personnel, involves information technology and the use of a common language for scientific

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communication. (Altbach, 2005, p. 64). Globalized world requires interactions between different nations, in order to respond to challenges, governments and academic systems adopt policies and programs to cope with or exploit globalization. Apart from sector of higher education, government agencies, international organizations, professional association get involved in issues of education modernization and strengthening.

Researchers consider internationalization an effective tool in institutional attempts to steer the process of globalization (Altbach and Knight, 2007). International activities of higher education institutions in regards to internationalization include student and faculty mobility; attracting international students; joint research projects; curriculum development and enhancement; joint or double degrees; development and capacity building projects; campus internationalization. As a rule, institutional priorities and degree of internationalization vary depending on type, size and location of institution, funding amount and sources, degree of centralization, commitment of administration to internationalization, strategic goals and vision.

1. Partnerships in higher education

International partnerships in higher education construct a common form of internationalization. They allow institutions to establish information and resources exchange in order to join forces to meet the challenges of globalized society. Samoff and Carrol define academic institutional partnership as “a collaboration that can reasonably be expected to have mutual (though not necessarily identical) benefits that will contribute to the development of both institutional and individual capacities at both institutions that respects the sovereignty and autonomy of both institutions” (Samoff and Carrol, 2004). While Institute of International Education approves the definition, given by Office of International Affairs of Indiana University – Purdue University Indianapolis: “Bi-national (or multinational) communities of higher education in which there is a constant flow of people, ideas, and projects back and forth, as well as the development of new projects and common goals.” (Clark, 2015). As we can see the definitions emphasize different aspect of the phenomena, thus, the latter one stresses the constant exchange and common goals, while the former concentrates on the nature and the results of cooperation.

Fielden distinguished three types of international partnerships in higher education on institutional level:

- *Level one* partnerships are primarily strategic; they are developed at a senior level within a higher education institution with the aim of the link becoming deeply embedded institution-wide across a range of faculties and activities, including both teaching and research.
- *Level two* partnerships are mainly developed and operated at faculty level. However, they often involve professional support from the central administration if academic exchange is involved.



• *Level three* partnerships are individual links between academic staff in different institutions. Usually, they are based on common research interests, but may also relate to teaching exchanges and short-term stays. These type of partnerships are numerous, often they are not monitored by central international office (Fielden, 2011). The number of level three partnerships is considerable in many Ukrainian universities. For decades Ukrainian higher education institutions signed numerous cooperation agreements with foreign institutions, which have not resulted in significant activity due to mismatch of resources or the activity may have not been expanded beyond one particular project or international initiative e.g. international conference, short-term exchange visit, joint publication etc.

Partnerships can be divided in transactional and transformational, the former ones are compared to business deals, where services are traded in a manner that resembles transactions in a marketplace, while the latter are considered to be of higher level since they change or transform entire cooperating departments, offices, and institutions. Transformational partnerships combine resources and view linkages as sources of institutional growth and collaborative learning. They often get expanded and involve new initiatives (Obst and Sutton, 2011). The specific features of each type of partnerships are presented in table 1.

Table 1. Transactional vs. Transformational partnerships

Transactional	Transformational / Intentional
Give-and-take nature of interaction No institutions change results from partnership Instrumental in nature Trade resources	Change institutions Generate common goals, projects, products Combine resources Emphasize the relationship as much as the product Expand over time Create basis for global learning Establish a bi-(or multi) national unit of higher education within an evolving global system

Source: Author's representation

Transformational partnerships are more complex in their nature and presuppose changes in all partner organizations involved. Teichler states that major changes in regards to nature of international cooperation happened in 1990s, namely the transition from a predominantly “vertical” pattern of cooperation and mobility towards a major role of “horizontal” international relationships, as well as from casuistic action towards systematic policies and related activities of internationalization. Integrated internationalization of higher education, which infers incorporated and institutional-wide approach, was introduced in the course of time (Teichler, 2009). Typical process of partnerships evolution for higher education institutions involves:

- Taking stock of existing affiliations;
- Establishing a partnership approval process;
- Articulating overall partnership goals and strategies;
- Spreading a culture of partnership;



- Developing policies, procedures, and organizational structures for managing partnerships;
- Providing baseline financial and other support;
- Developing effective practices for initiating partnerships;
- Drafting well-crafted Memoranda of Understanding and Implementation Plans;
- Pursuing effective practices for sustaining partnerships over time;
- Establishing procedures for reviewing, revising, and/or terminating partnerships.

2. European Commission as an agent of internationalization in Europe

European Community encouraged the first activity in the sphere of internationalization – cross-border mobility. From 1986 to the early 1990s, the European Community established 14 programs to provide support for European cooperation in education (Teichler, 2009). Various European education programs emerged such as SOCRATES for education and LEONARDO DA VINCI for vocational training. In 1989, the EC supported the establishment of a European Credit Transfer System (ETCS), which addressed the issue of recognition of study results and allowed to increase international exchange.

Supported by European Commission, European Community Action Scheme for the Mobility of University Students (ERASMUS), commenced in 1987, which according to U. Teichler triggered internationalization process in Europe and led to the systematic embedding of international activities into the general activities of higher education institutions (Teichler, 2009).

The Jean Monnet program¹, launched in 1989, aims at stimulating teaching, research and reflection in the field of European integration studies at the level of higher education institutions within and outside the European Community. The program is present in 72 countries throughout the world. Between 1990 and 2011, the Jean Monnet Program has helped to set up approximately 3,700 projects in the field of European integration studies, including 165 Jean Monnet European Centers of Excellence, 879 Chairs and 2,139 permanent courses and European modules (Jean Monnet Programme).

Conducted in 2013, the International Association of Universities 4th Global Survey on internationalization based on responses from a total of 1,336 institutions worldwide, covered a lot of ground, including questions about strategic planning for internationalization; infrastructural supports; expected benefits and perceived risks; drivers and obstacles; mobility patterns and targets; internationalization of the curriculum; and learning outcomes (Egron-Polak and Hudson, 2014). Among other issues, the survey focused on geography of international cooperation of higher education institutions in different parts of the world. The results are presented in the table below (Table 2). Institutions focus their internationalization efforts in Europe, which as a rule is among the priority areas of cooperation for

¹ For further details see: http://eacea.ec.europa.eu/llp/jean_monnet/jean_monnet_en.php

institutions all around the world. We can observe that institutions give preference to partners in their own geographical regions, creating stronger ties within the region. North America and Middle East prioritize cooperation with institutions in different regions, thus, Middle East institutions focus on Europe and North America, while North American universities priorities cooperation with Asia and Pacific, Latin America and Caribbean.

Table 2. International partnership preferences by geographical regions

		Regions of respondents					
Region of cooperation priority		Africa	Asia and Pacific	Europe	Latin America and Caribbean	Middle East	North America
	Africa	1					
	Asia and Pacific	3	1	2	3		1
	Europe	2	2	1	1	1	3
	Latin America and Caribbean				2		2
	Middle East					3	
	North America	3	3	3	1	2	

Source: Green, 2014

Nowadays the activity of European Commission focuses on realizing the tasks to achieve the objectives defined by Strategic framework – Education and Training 2020. EU countries have identified objectives to address common challenges, namely ageing societies, skills deficits in the workforce and global competition. Four priority goals are set: making lifelong learning and mobility a reality; improving the quality and efficiency link to another EC website of education and training; promoting equity, social cohesion, and active citizenship; enhancing creativity and innovation, including entrepreneurship, at all levels of education and training (Strategic framework – Education & Training 2020).

3. TEMPUS program and its outcome for Ukraine

TEMPUS² is the European Union program active in 1990-2013, established to support modernization of higher education between EU and Eastern Europe, Central Asia, Western Balkan and Mediterranean regions, managed by the Education Audiovisual and Culture Executive Agency. In 2014³, it was integrated in ERASMUS+ program. The general objective of program was to contribute to the creation of an area of cooperation between the European Union and TEMPUS

² See: [http://eacea.ec.europa.eu/tempus/participatingcountries/ impact/ ukraine.pdf](http://eacea.ec.europa.eu/tempus/participatingcountries/impact/ukraine.pdf)

³ See: [http://eacea.ec.europa.eu/tempus/tools/ documents/tempus_study_issue16_achiev_EastCount_en_130726.pdf.pdf](http://eacea.ec.europa.eu/tempus/tools/documents/tempus_study_issue16_achiev_EastCount_en_130726.pdf.pdf)



Partner Countries. Specific objectives were the following: to promote the reform and modernization of higher education; enhance the quality and relevance of higher education; increase the capacity of higher education institutions in particular to cooperate and modernize; to foster reciprocal development of human resources; to enhance mutual understanding between the peoples and cultures of the EU and the partner countries.

Priority themes under Tempus are defined around the main components of the EU's higher education modernization agenda and are, therefore, structured in the following three building blocks:

Curricular reform: modernization of curricula in academic disciplines identified as priorities by the partner countries, using the European Credit Transfer System (ECTS), the three-cycle system and the recognition of degrees;

Governance reform: university management and services for students; introduction of quality assurance; institutional and financial autonomy and accountability; equal and transparent access to higher education; development of international relations.

Higher education and society: training of non-university teachers; development of partnerships with enterprises; knowledge triangle education-research-innovation; training courses for public services (ministries, regional/local authorities); development of lifelong learning in society at large; qualifications frameworks.

Ukraine joined TEMPUS in 1993. The projects carried out in Ukraine at that time focused on improvement of university governance and management, upgrading of old curricula and development of new courses and programs, professional development of teachers, especially in disciplines such as economics, foreign languages, social science, European studies and law. Ukrainian universities from all the regions have been active in the program since the beginning, Tempus projects have been implemented in nearly all the regions. Tempus priorities in Ukraine, defined by Ukrainian education authorities and the European Commission, have placed a strong emphasis on Bologna process criteria.

Participation in the program TEMPUS resulted in the following outcomes:

- development of many new courses and curricula that respond to labor market needs;
- update of knowledge of specific subjects by the faculty;
- introduction of new teaching and assessment methods;
- enhanced internationalization by means of sustainable partnerships that have frequently led to further cooperation and research opportunities long after projects end;
- elaborated terms of the introduction of new degrees and of the two-tier degree system.



Table 3. TEMPUS projects involving Ukraine

	TEMPUS I and II	TEMPUS III	TEMPUS IV				
	1990-1999	2000-2006	2008	2009	2010	2011	2012
Joint Projects	35	80	12	9	5	8	16
Compact Projects	14	0	0	0	0	0	0
Structural Complementary Measures (Tempus III)	0	29	0	3	0	1	7
Structural Measures (Tempus IV)							
Total	49	109	12	12	5	9	23

Source: TEMPUS in Ukraine

One of the projects sponsored by the TEMPUS program of the European Commission is “Quality Assurance Tools for the Management of Internationalization” (QATMI), the project involved eight universities from five different countries, namely Armenia, Azerbaijan, Belarus, the Russian Federation and Ukraine. The project lasted from January 2009 till January 2012.

QATMI pursued the following aims:

- The self-assessment of the state of internationalization and the definition of performance gaps.
- The development and establishment of internationalization goals for the participating universities.
- The creation of a training program to assist in the achievement of the individual work programs and internationalization goals.
- A second self-assessment / benchmarking after two years as a means to check how well the recommended measures were implemented.

Within the framework of project, trainings and workshops on different aspects of internationalization were organized. A comparative survey of internationalization in partner institutions was conducted and recommendation were provided with respect to specifics of region. Necessary infrastructure for implementation of internationalization was formed.

Another TEMPUS Program project “Integrated University Management System: EU Experience on NIS Countries’ Ground” (15 October 2012 – 14 October 2015) involves a partnership of 17 universities from Germany, France, Netherlands and Poland and Partner countries universities in Georgia, Belarus, Moldova and Ukraine.

Project goals and objectives:

1. Analysis and use of the EU experience in the development and effective implementation of integrated information management systems at universities.
2. Design of the model of integrated university information management system and its application in partner universities.
3. Solving the problems of educational systems in Ukraine, Belarus, Moldova and Georgia related to the lack of market-oriented university management; harmonization of the approaching of Ukrainian educational management to international standards.



Project activities included: analysis of experience in development and implementation of information systems at the EU universities; design of University Information Management System, using modern software; organization of retraining courses for IT centers' staff; design and integration of the new software for information support of university governance based on analysis of business processes and information flows; adaptation of the new software to specific conditions of university governance in partner universities; creation of training courses on information management systems; preparation, publishing, purchase of the new teaching materials, handbooks, syllabi; creation of Innovation and Education IT centers at the NIS universities.

Expected results:

1. Updating of existing and introduction of new elements of university integrated information management system; retraining of universities' staff; innovation and education IT centers at the NIS universities; developed guidance on the principles and practices of development and effective use of integrated information management system; retraining of IT administrators as well as creation of new software modules of automated systems.

2. Development of the concept of university information management, guidance on development and effective use of integrated information management systems; development of courses on modern methods in university management for administrative staff.

The project "Bachelor's and Master's Degree in Social Psychology to Solve Migration Problems in Russia, Ukraine and Kazakhstan" (15 October 2011 – 14 October 2014) coordinated by Alexandru Ioan Cuza University of Iasi, Romania. Aimed to update curricula for Bachelor's and Master's programs in Social Psychology to address contemporary migration issues, the project presuppose development of accreditation and the introduction of new practice-oriented programs and modules of Bachelors, Masters Programs in Social Psychology and establishment of four regional centers of excellence. Within the framework of project, organization of six information sessions for interested schools and social services was planned, as well as pilot training of 42 teachers and 170 students for new programs and modules.

Conclusions

International partnerships are common and effective form of internationalization of higher education, they aim to facilitate institutional development, foster research and innovation, enhance quality of education and create opportunities of resources exchange, including but not limited to information and knowledge. Numerous partnerships are created within the framework of European Union programs. The programs in question seek to build institutional capacity of participating institutions, as well as enhance quality of education and research. TEMPUS is one of European Union's programs that involves cooperation of European higher education institutions with institutions in different regions of the world, focused on promoting European higher education, sharing the positive

practices and assisting partner institutions in responding to challenges of globalization.

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FINANCING REGIONAL DEVELOPMENT THROUGH EUROPEAN FUNDS. A REVIEW OF THE EFFECTS IN ROMANIA (2007-2013)

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Abstract: *The paper aims at creating an area of understanding regional development in Romania in the broader context of community regional development, given the impact that the implementation of this policy has on the reduction of economic and social disparities between regions in the case of Romania. The paper is structured on three chapters: firstly it tackles the need for a regional development policy in Romania taking into account the EU adherence goal (after 1990) and the disparities existing between regions across Romania. Secondly, we present the European funding instruments and mechanisms of regional development in Romania, mainly the European Regional Development Fund (ERDF) within the Regional Operational Program (ROP). Thirdly, we analyze the impact of financing regional development policy in terms of reducing economic disparities between the Romanian regions for the period 2007-2013 and highlighting the importance and effects of regional development financing. To this aim, we analyzed the evolution of the following indicators with an impact on regional development: the GDP per capita evolution, the evolution of foreign investments, the unemployment rate and evolution of the number of small and medium enterprises. The end is reserved for the conclusions of the research. When conducting this paper, the main research instruments used were the study and analysis of documents, analysis of official reports and the literature on regional development as well as the interpretation and analysis of statistical data provided by the National Institute of Statistics of Romania.*

Keywords: regional development; European funds; EU regional policy; GDP per capita

Introduction

Nowadays, regional development raises debates and arguments both at national and European level in the context of which the European Union (EU) member states, seen as individual, independent states and as a whole, want a harmonious economic and social growth through the reduction of disparities between their regions. As an EU member state, Romania is supported in the

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process of implementation of regional development by the community structural instruments. These structural instruments provided by the EU represent Romania's opportunity to catch up on the economic discrepancy and become an economy competitive with the other states within the EU.

The paper is organized as follows: the first section justifies the necessity of a regional development policy in Romania. In section 2 we present the European funding instruments and mechanisms of regional development in Romania, mainly the European Regional Development Fund (ERDF) under the Regional Operational Program (ROP). Section 3 of the present paper analyzes the impact of financing regional development policy in terms of reducing economic disparities between the regions of Romania during the period 2007-2013. Finally, we present our main conclusions.

1. The need for a regional development policy in Romania

In the EU, the interest in the development of a regional policy was correlated with the potential effects of economic disparities on economic integration. Thus, a major problem in the study of economic situation of EU regions is represented by the distinction of original regional disparities, which are independent from the Union, from those generated by the European economic integration. In this context, the reduction of discrepancies between economic and social development levels has become an important goal for all the European single market members because great discrepancies generate malfunctions of the market and cause negative effects on the more vulnerable ones (Dornean, 2013, p. 11).

In the case of Romania, the identification of economic disparities and of the development potential of each region is necessary both for the orientation and use in an efficient way of structural funds granted by the EU. When highlighting the existing regional disparities one can identify the main fields that should be focused on for the funding and implementing the regional development policy.

In Romania, the process for the development of a regional development policy at national level was determined and influenced by the fulfilment of the EU requirements on regional policy in light of getting the quality of EU member state. Thus, the objectives, the legislation and the institutions needed for the implementation of the regional development policy were developed in a relatively short period of time with a precise goal: EU adherence.

Even if the EU adherence represented a fairly strong reason for the mobilization of the Romanian state to develop an adequate framework for the elaboration, implementation and monitoring the regional development policy, the main reasons for the creation of such a policy were purely economic. Thus, the foundation of a regional development policy was supposed to support the country's economic growth through the reduction of disparities between regions across Romania.

Romania's initial economic state during the pre-accession stage was not a favourable one, especially due to the fact that Romania underwent the transition process towards a consolidated economy, after several decades of communist

dictatorship. As a consequence, any attempt to explain our country's regional disparities must be placed in the general context of the transition period towards a market economy from the beginning of the 1990s. Even if regional disparities were relatively insignificant in the beginning, these started to expand with the beginning of the transition stage to the market economy. This trend of deepening economic disparities maintained until the year 2000 when a consistent economic growth started to be recorded which also involved the decrease of economic disparities among regions.

The study of regional disparities and their evolution must be accompanied by the analysis of changes that took place in the structure of labour force occupation and in the enterprise sector. This analysis triggers new aspects and meanings for a better understanding of regional disparities and the need to implement a regional development policy in Romania.

The main indicators selected for the analysis on the degree of regional development in Romania during the transition period are the following: the Gross Domestic Products (GDP) per capita, unemployment rate, foreign direct investments (FDI) and the number of small and medium enterprises (SMEs) per capita (Government of Romania, 2005, p. 187). According to statistical data, the evolution of economic and social disparities between the development regions of Romania increased starting with the 1990s, due to the different development level. Thus, since 1990 in Romania the same development trend of the regions has been registered as in the case of the other EU states, which means that the regions close to the borders have known a certain economic development rhythm while the capital recorded an accelerated pace of economic development.

The analysis of economic disparities in relation to the GDP per capita shows that the economic differences among the Romanian regions have considerably increased during the pre-accession period. The development disparities between the richest region (Bucharest - Ilfov) and the poorest one (North-East), in terms of GDP per capita has tripled. According to the data provided by the National Institute of Statistics of Romania (2008), GDP per capita registered a significant growth only in 2002 as a consequence of foreign investments in the private sector. During 2005-2007, all regions of Romania also recorded an increase of over 6% of the GDP per capita of the national average. The greatest increase was recorded in the Bucharest-Ilfov region. The evolution of the GDP per capita at regional level for the period 2002-2006 is presented in table no. 1.

Table 1. The evolution of the GDP per capita at the level of regions during 2002-2006 (in national currency)

Region	2002	2003	2004	2005	2006
North-East	5.057,4	6.521,5	7872.0	8.907,6	10.295,8
South-East	6.288,8	8.018,6	10470,2	11.541,7	13.569,8
South	5.613,3	7.294,9	9407,2	11.068,5	13.374,6
South-West	5.415,3	7.547,0	9367,2	10.371,1	12.463,2
West	7.629,5	10.182,8	13020.1	15.064,7	18.570,1



Region	2002	2003	2004	2005	2006
North-West	6.690,7	8,639,7	10901.2	12.538,6	14,946,6
Center	7.332,0	9.425,5	11458.8	13.097,6	15.920,2
Bucharest-Ilfov	14.149,1	18.276,5	22908.7	29.572,6	35.012,1

Source: The National Institute of Statistics, Statistical Yearbook, 2008

As it can be noticed from table 1, during 2002-2006, for each development region, the GDP per capita registered a yearly increase as a consequence of the awareness of the need to implement a regional development policy. Despite this, even if there was a significant increase in the GDP per capita, at the same time the disparities among regions began to deepen. This occurred mainly because the regions had not known a similar development. Thus, while some regions recorded a spectacular development (Bucharest-Ilfov), other regions had a slower growth level (North-East). This led to the increase of disparities between the most developed region Bucharest-Ilfov and the less developed regions.

Another specific indicator for measuring the development level of the regions is unemployment rate. Since the year 1990, in Romania, unemployment rate recorded an increase at the level of all regions across Romania, but the highest rate was for the North-East and South-East regions while the lowest one was recorded for the Bucharest-Ilfov region and the West region. Starting with the year 2000, the unemployment rate for all Romanian regions recorded the same increasing trend, with slight differences from the 90s. These differences resided in the fact that apart from the regions with the highest unemployment rate, there were also three other regions with problems regarding the occupation of labour force and implicitly the unemployment rate. This growth was mainly caused by the restructuring of the economic activity sectors from these regions (Stanef, 2009). At the same time, among the main reasons which led to the unemployment growth in the Romanian regions after the year 2000, we can mention the high number of retired people and the migration of Romanian citizens abroad.

Following these evolutions, Romania's plan to work on the increase of number of work places through structural funds provided by EU for the regional development and the drop of unemployment rate in Romania is well justified.

In terms of the FDI evolution and the number of investments for SMEs development, the need for a regional development policy in Romania can be explained and understood more easily. The FDI increase as well as its increase in the SMEs area directly influences regional development and vice-versa.

Thus, in the case of foreign investors, regional development represents the main criterion they take into account when they decide whether to invest in that respective region or not. As a rule, they focus their investments in the regions with a low unemployment rate and with a developed GDP per capita. During the pre-accession years, the least attractive region for the foreign investors was the North-Eastern one because the transport infrastructure was precarious and its economy was based on agriculture. At the same time, the agriculture-based economy was the main reason why the South-Muntenia region was as attractive as the North-East one as regards the attraction of foreign investments. Therefore, since the national

prosperity requires foreign investors, it was necessary to implement a regional development policy that should increase the role of regions and develop their infrastructure in order to attract foreign investments.

With regard to the SMEs situation, during the pre-adherence period, the start-up of this type of companies knew an increasing trend but at the same time not at all equal for all eight regions. SMEs have a significant contribution to the development of the GDP per capita and implicitly to the economic growth because they create new jobs.

In brief, the transition period towards the market economy constituted for Romania the perfect frame for the increase of regional differences and our country had to tackle serious problems in order to counteract the regional disparities between the most developed and the least developed regions.

In order to fight these problems, it was highlighted the need to implement a regional development policy for Romania and to elaborate a rational regional development strategy whose result would be the reduction of economic differences among the eight regions of our country.

2. European instruments and mechanisms of funding regional development in Romania

In Romania, the main regional development projects and programs are funded through the structural instruments provided by EU. The structural instruments that Romania can access in order to finance regional development are the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund (CF).

Nowadays, in Romania, the main regional development projects and programs are mainly funded through ERDF. ERDF represents the main financial instrument that implements the regional development policy in Romania. The amounts granted through ERDF to the Romanian development regions are distributed for the performance of the “convergence” objective and Romania achieves the funding criteria under the condition of this goal since the GDP per capita is much lower in relation to the average recorded at European level.

For the period 2007-2013, ERDF represented the main funding source of the regional development projects implemented through the Regional Operational Program (ROP). According to the financial plan set up for the ROP implementation, during 2007-2013 EU made available approximately 3,966 million Euros for putting into practice the regional development projects managed through this operational program. The financing of regional development through ERDF cannot replace entirely the national resources with respect to regional development. Thus, during the post-adherence era the amounts granted through ERDF may finance 85% of the eligible expenses for the promotion of regional development, the rest of 15% being allocated by means of national contribution. The allocation of amounts through ERDF is set up according to the GDP per capita and to the number of persons living in each development region. The relation to the GDP per capita indicator was established by taking into account the fact that at EU level,



GDP per capita reflects the development level of a region. In Romania, the ROP implementation for regional development is made by certain specific institutions which have a significant role in receiving and distributing the funding resources for the projects run within this operational program. Within ROP, the main institutions involved in putting into practice the objectives of regional development are the Ministry of Regional Development and Public Administration, the Ministry of Public Finance, the auditing authority within the Court of Auditors and the eight regional development agencies (Maha, 2010, p.80).

The Ministry of Regional Development and Public Administration represents both the management authority of ROP and its payment authority. Among its main tasks concerning the grant of financing for regional development projects we can mention: the issuance of calls for project proposals, the reception and approval of projects submitted by beneficiaries as well as the payments process towards beneficiaries through the payment service existing in this ministry.

The Ministry of Public Finance represents the certification and payment authority of ROP and has as main tasks the elaboration and dispatch to the European Union of calls for payment certification and reimbursement calls. At the same time, with regards to the financial flow of the ROP projects, the main role of this ministry is to ensure the reception of payments in ERDF through the payment unit department.

These institutions have the role to ensure the ROP implementation and management of financial resources received through ERDF and implicitly to perform the funding of regional development in Romania.

The funding of regional development through structural instruments can be explained more exactly if one understands the funding mechanism of regional development projects within ROP. Thus, since the moment when the European Commission issues the calls for proposals to grant financing, the ROP management authority has the responsibility to make public the launch of these calls and the criteria the beneficiary has to meet in order to get the financing. From this moment the beneficiary has a certain period of time available to work on and then submit the financing call for the project for which he wants financing.

In the case of ROP, the beneficiaries send these financing calls to the Agency for Regional Development of the region they belong to. This agency checks the financing call and forwards it for checking and approval to the Ministry of Regional Development and Public Administration. As the ROP managing authority, this has the possibility to authorize the financing call or to reject it. If the ministry gives the green light to the financing call, then it informs the Agency for Regional Development about its decision and the agency in its turn transmits the ministry's response to the beneficiaries.

After these stages, the beneficiary signs the financing agreement and makes the payment requests that he later on sends for examination to the Agency for Regional Development and then to the Ministry of Regional Development and Public Administration. Further on, these requests are directed for approval to the certification and payment authority represented by the Ministry of Public Finance. Then, the transfer of amounts to the payment unit within the Ministry of Regional



Development and Public Administration is made and it performs the payments to the beneficiaries.

At this stage, the certification and payment authority represented by the Ministry of Public Finance has an important role in financing the ROP projects because it sends the payments requests to the European Commission, it receives the non-reimbursable financing for ROP and it makes the payments necessary for developing the ROP projects.

This financing mechanism of the ROP projects is extremely important for regional development in Romania since it is the financing means for regional development across Romania.

3. The impact of financing regional development through structural instruments

As an EU member state, Romania is supported in the process of implementation of regional development policy by structural community instruments. All the opportunities for development, starting from the creation of an adequate infrastructure for transportation to the creation of jobs comparable with the standards of other Union states become possible through the access of structural instruments made available by EU, in the absence of adequate national public resources (Bilan, 2014).

In the context of the promotion and funding of regional development, structural instruments provided by EU represent Romania's chance to catch up on the economic gaps by diminishing the social and economic disparities and becoming competitive with the other EU member states. Thus, by using these funds, the goal of regional development national policy to reduce regional differences and support regional development can be attained by means of lower costs than those involved by the use of only national development.

2007 represented without the slightest doubt the year when Romania was given new development opportunities from an economic standpoint through the access to European funding. With the EU adherence, the development opportunities of our country reshaped through the post-adherence funds offered by EU in order to decrease the economic and social gaps between Romania and the other Union states.

The impact of regional development funding through structural instruments can be noticed in the case of Romania based on the analysis of the development of Romanian regions as a consequence of the access to structural instruments during 2007-2013. Romania is split into eight development regions shaped after the adoption of Law no. 151/1998 on regional development in Romania which was subsequently revised by Law no. 315/2004.

Romania's development regions are relatively similar in size, excepting the region Bucharest-Ilfov that managed to compensate through its top position as regards the economic development in comparison with the other regions of the country. The largest region is the North-East one both in terms of territorial size and number of inhabitants.



The period 2007-2013 represented for Romania the first test it had to pass concerning its capacity to manage and implement structural instruments. Following this financial exercise, Romania ranked on the last places in EU with respect to the attraction of European funds.

Nevertheless, the regional development progress was remarkable having in view the initial situation of the development regions of Romania prior to the year 2007. The allocation of non-reimbursable funds of the Union, through ROP is performed based on the inverse proportionality which means that the under-developed regions have priority in the allocation of financial resources in comparison with the developed regions. Yet, in order to avoid the neglect of the more developed regions, this criterion was changed with the population density in a region.

The impact of regional development funding through structural instruments can be highlighted by the evolution of the main indicators that analyze regional disparities. For the analysis of the effects of regional development financing through structural instruments we analyzed the evolution of the following indicators with an impact on regional development: the evolution of GDP per capita, direct foreign investments, unemployment rate and the evolution of the number of small and medium enterprises. For the analysis of these indicators we mainly used statistical data provided by the National Institute of Statistics of Romania and the National Bank of Romania.

With regard to the indicator GDP per capita over the same period, even if it increased in each development region, the economic differences among regions remained relatively the same as during the pre-adherence period; thus, the North-East region preserved its status as the poorest region unlike the most developed region Bucharest-Ilfov.

Thus, until 2012, the GDP per capita knew an increasing trend for all eight regions of Romania. Despite this, at the end of 2011, of the eight regions the increase was significant only for the regions Bucharest-Ilfov and Center, which recorded a remarkable growth in comparison with the previous year. According to the statistical data provided by the National Institute of Statistics, until the year 2009 the GDP evolution was satisfactory, after which it registered a decrease in all eight regions, drop that was caused by the global economic crisis. The GDP per capita evolution for each region of Romania for the period 2007-2013 is presented in table no. 2.

Table 2. The evolution of the GDP per capita by regions during 2007-2013 (of the national average/100)

Development region	GDP per capita by region %						
	2007	2008	2009	2010	2011	2012*	2013*
North-East	63,90	61,80	62, 76	60,70	61, 64	61,30	61,10
South-East	81,00	79,80	80, 28	80,00	81, 52	80,90	80,90
South	81,60	82,10	85, 31	86,50	87, 92	87,90	88,00
South-West	78,20	74,50	76, 06	73,60	74, 37	74,60	74,90
West	115,70	109,40	109, 69	113,10	115, 31	115,30	115,4
North-West	96,40	90,00	91, 24	91,40	88, 89	88,20	88,00
Center	101,40	94,90	96, 90	97,40	99, 62	99,70	99,40
Bucharest-Ilfov	222,80	249,30	235, 97	236,00	230, 38	229,00	228,7

Source: National Institute of Statistics, Statistical Yearbook, 2011 and (*) National Commission of Forecasting, Forecasting at territorial level 2012-2015, 2012, p. 18

According to the statistical data presented in table no. 2, we may notice that during the period 2007-2013, the GDP per capita increase that characterized the regions until 2009, knew a stagnation period and as for the regional disparities measured by GDP, these remained at the same level with the obvious discrepancy between the growth percentages of the Bucharest-Ilfov region and the other regions.

Based on this analysis, we can observe that in terms of poverty and under-development, the North-East and South are the poorest and most under-developed ones in comparison with the other regions of the country. In contrast, the other regions are characterized as being developed (West and Center) and very rich in the case of the Bucharest-Ilfov region.

Contrary to the expectations regarding the reduction of regional development disparities through structural instruments financing, the poor regions did not manage to catch up on the developed ones in terms of GDP per capita. This was mainly caused by the geographical position of the region and its prevailing economy.

Thus, it is difficult enough that in an agriculture-oriented economy as in the case of the North-East and south regions, the GDP per capita should increase in a similar way as with the GDP per capita in the developed regions where there are industrial centers and more developed services.

With reference to the FDI evolution within the 2007-2013 financial exercise, these recorded an increase at the level of all eight development regions. In Table no. 3, we present the evolution of FDI for the development regions of Romania for the period 2008-2013.



Table 3. The evolution of the FDI balance by development regions during the period 2008-2013

Region	% of total FDI					
	2008	2009	2010	2011	2012	2013
North-East	2,3	1,9	2,4	2,9	3,0	2,8
South-East	7,3	5,9	6,3	5,4	5,5	4,2
South	7,0	7,2	7,3	7,4	7,2	7,7
South-West	2,5	4,1	3,7	3,3	3,5	3,2
West	5,4	6,2	6,5	7,2	7,6	7,6
North-West	4,3	3,9	4,2	4,5	4,8	4,5
Center	8,5	7,4	7,4	7,6	7,8	8,6
Bucharest-Ilfov	62,7	63,4	62,2	61,7	60,6	61,4

Source: NBR, Direct foreign investments in Romania, 2009-2014, available at:
<http://bnr.ro/PublicationDocuments.aspx?icid=9403>

When analyzing the data, we notice that from a territorial perspective, the FDI are oriented prevalently towards the development region Bucharest-Ilfov (61.4% in the year 2013 even if it decreased in comparison with the previous years). Other development regions which benefited from FDI in a relatively large manner are the center region (8.6% with an increasing trend), the South region (7.7% with an increasing trend), the West region (7.6%) and the North-West region (4.5%). We can also notice that among the least attractive regions for the foreign investors there is again the North-East region (2.8%) and the South-West region (3.2%).

As regards the number of SMEs founded in each region that have a significant impact on the region's economy for the period 2009-2011, an overview of their number is shown in table no. 4.

Table 4. Number of SMEs per 1,000 inhabitants

Regions	2009	2011
North-East	60, 68	62, 58
South-East	85, 76	88, 34
South	68, 81	67, 89
South-West	67, 12	67, 08
West	103, 39	105, 52
North-West	109, 83	109, 20
Center	101, 36	103, 89
Bucharest-Ilfov	266, 78	222, 09

Source: National Institute of Statistics

From the perspective of computing regional disparities in relation to the number of SMEs from a region, it can be observed that during the years 2009 and 2011 most of the SMEs per 1,000 inhabitants were in the region Bucharest-Ilfov and the fewest ones were in the North-East, South-Muntenia and South-West-

Oltenia regions. In other words, the region Bucharest-Ilfov was the most developed one from this point of view.

When regarded from the perspective of unemployment rate, regional disparities among regions during 2007-2013 are logical and obvious because it is natural that in a region characterized by a very high unemployment rate its economy should be seriously affected. The situation of unemployment rate during the period 2007-2013 is presented in table no. 5.

Table 5. The evolution of unemployment rate for each region 2007-2013

Development region	Unemployment rate per region %						
	2007	2008	2009	2010	2011	2012	2013
North-East	5,1	5,3	8,6	7,7	7,5	7,4	7,2
South-East	4,4	4,7	8,4	8,0	7,8	7,5	7,1
South	5,1	5,2	9,5	8,7	8,5	8,3	8,0
South-West	5,1	6,9	10,5	9,1	9,0	8,8	8,3
West	3,4	3,8	7,3	5,8	5,6	5,5	5,3
North-West	2,9	3,3	6,8	5,9	5,8	5,4	5,1
Center	4,8	5,2	9,6	7,9	7,7	7,5	7,0
Bucharest-Ilfov	1,7	1,6	2,3	2,3	2,1	1,9	1,6

Source: National Commission of Forecasting, Forecasting at territorial level 2011-2014, 2011, pp. 12-13

When analyzing the data from this table, the development differences between the most developed region, Bucharest-Ilfov, and the poorest one, North-East are obvious under the conditions in which the unemployment rate in Bucharest-Ilfov was 1.7% in 2007, and 1.6% in 2013, while in the other regions, the same indicator was situated between 5.1% and 8.3%. We note an increase in unemployment rate in all regions in 2009 due to the economic and financial crisis recorded at that particular moment, whose main effects were the downsizing of many companies or even their bankruptcy, which led to fewer jobs and unemployment growth.

Following the analysis of these indicators of regional development, one can ascertain that from the point of view of development disparities, the EU intention to eliminate or even diminish disparities among the Romanian development regions through structural instruments did not reach its goal.

As a consequence, even if structural instruments made available by the European Commission have been substantial, Romania has not succeeded in reducing the huge development gaps between the richest region, Bucharest-Ilfov, and the other development regions.

Moreover, of the total amount of European funds available for the period 2007-2013, Romania managed to attract a small percentage of European funds, of 53.12% on March 31, 2015 of the total of 19 billion Euros provided by EU. As for the regional development financing through ROP, the absorption rate on the same date was of 60.89% (Ministry of European Funds, 2015).



This failed attempt of Romania to attract as many structural instruments as possible in order to finance regional development was mainly explained by the global economic crisis which coincided with the first test Romania had to pass concerning its absorption capacity of structural instruments.

The incapacity to reduce the disparities between the richest region, Bucharest-Ilfov and the other development regions was explained by the fact that although Bucharest-Ilfov region was since 2007 the richest region, the highest number of projects submitted and approved for European funding belonged to this region.

Conclusions

Even if Romania succeeded to comply with the EU requirements to develop an institutional and legal framework necessary to implement a regional development policy that should have as result the reduction of economic differences among the eight regions of our country, the positive, significant effects of the implementation of such a regional development policy were slow to occur; furthermore these deepened in time due to the disproportionate way of development of the regions across our country.

Therefore, even if the structural instruments provided by the European Commission were substantial, Romania did not manage to reduce the huge development gaps between the richest region, Bucharest-Ilfov, and the other development regions. The analysis of the main indicators of regional development showed that in the case of Romania, the financing of regional development had a significant role in terms of the region seen as a distinct unit and not in relation to the other regions of the country.

In light of the complexity and importance of the regional development topic as well as of the main outcomes that are expected through the financing of its objectives, we believe that the authorities in Romania should pay more attention to the solution of the regional disparities and elaborate policies that could attract foreign investors in the less developed regions.

As a conclusion, although the differences among the Romanian regions are more than obvious, there is growth potential even if not at the level of the richest EU regions. Firstly, Romania needs to set up priorities for the future development of these regions and secondly, it must set up feasible goals based on the present evidence available in each region, without being influenced by what happens in Europe. It is more than apparent that our country's regions must follow the example of other EU regions in terms of development rhythm but this does not mean that it should settle goals which are impossible to attain in Romania.

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TAXATION IN THE CONTEXT OF EUROPEAN ECONOMIC GOVERNANCE

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Abstract: *Through taxes, a significant proportion of gross domestic product is collected and concentrates to the state for financing public spending, giving direct expression of taxation as a set of processes for redistributing GDP. Thus, both in the political and economic, financial and social level it gains a particular importance the issue of dimensioning the part of GDP taken in the form of tax, for the state disposal and, implicitly, for its proportions of fiscal levies, which shows the relative level of taxation also called level of taxation. The amount of income tax, respectively of taxes collected don't only result in taxable mass and its tax rate, but are also influenced by behavioral factors. In other words, tax revenues to the budget depend on the proportions propensity to evasion or tax for fiscal civism and some studies show that, generally, the greater the tax burden is, the more the tax will decrease fiscal civism (even if only in the spirit of conservation) and increase the propensity to evasion.*

Keywords: tax, tax levy; level of taxation; gross domestic product; tax evasion; fiscal civism; tax evasion; public expenses

Introduction

The presence and the issue of tax, and implicitly of taxation in the life of humanity, generated by the need of public finance expenditure was and remains a controversial area, going down from a challenge to accepting them as a necessary evil and their involvement with major impact as variables in models / mechanisms of functioning of modern socio-economic systems. Consecration of these concepts from the compulsory charging tax content of the product created by the subjects of the state, without equivalence or counterpart and subsequently forfeited, thus having a fiscal nature typical organic falls in the evolution of human society being inextricably linked with the functioning of state institutions consumers, but uncreative, directly, new value from early forms to modern institutions and public bodies with specific tasks and contemporary complex duties.

Upon developments in this area a major impact had the mutations regarding the state's role in the economic and social life of human communities, which were amplified with the growing complexity of life and work of organizations such as

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state by assuming new tasks and providing public goods and services freely or partially subsidizing their costs.

But, more generally, costs for public consumption, either in its traditional areas, concerning defense, public order, functioning public administration, education, health, culture, art, social security, or in newer ones such as social protection, scientific research, environmental protection, etc., including the realization of economic activities, especially for cyclical smoothing of the economy is based on performing tax levies and tax implicitly. Objectively, the growth of public utilities provided free or subsidized increases the need for financial resources whose purchase leads inevitably to an increase in tax levies in various forms of taxes equated expressed often by the concept of taxation.

Thus, the issue of taxes is at the same time, also one of the taxation, namely the structure and functioning of the tax system, designed also as normative-regulatory framework as a practice of taxes to finance activities whose costs are recoverable from users or from income obtainable in these activities, considered to be principled, value uncreative.

1. Classical and modern approaches to the concept of taxation

In a broad, habitual sense, in the "Le Petit Larousse" dictionary, taxation is explained as a system of collection of taxes, as well as all laws to which it relates and treasury management activity is seen as responsible for determining and collecting taxes. By comparison, while remaining some of the previous meanings, in the encyclopedic dictionary of the Romanian language, taxation is presented as a system of levying of taxes by tax authorities, and tax authorities as a state institution in charge of establishing and levying taxes or watching those who have not paid within these contributions.

On the other hand, starting from the definition of taxes that can be considered as classic, meaning "sampling a portion of the income or wealth of natural and legal persons available to the state to cover public expenditure", some authors reduce taxation to a "relation between the state and individuals or legal entities" (Tatu, *et al.*, 2004, p.1), while others consider it as "a system of principles, rules and norms enacted on: recording and management of taxpayers, establishing, highlighting and settling tax obligations, control and resolution of complaints, providing tax assistance to taxpayers for correct knowledge and application of tax laws" (Florescu, *et al.*, 2005a, p.49).

We also note the fact that the approaches of differentiated taxation are in correspondence with the tax system. This is defined, in turn, in certain sources, as "all taxes imposed by the state which ensures an overwhelming part of its budget revenues, each having a specific contribution tax and a regulatory role in the economy" (Corduneanu, 1998, p.21). In other sources, the tax system is considered "a set of concepts, principles, methods, processes regarding a lot of items such as taxable matters, quotas, tax subscriptions, among which there are manifested relationships that arise from design, legislating, settlement and tax collection and are managed according to tax law in order to achieve the objective of the system"



(Hoanta, 2002, p.169), leading usually to the substitution of the two terms. Most often, especially the Western literature deals with the concept of taxation especially legally, giving it the meanings of a set of rules concerning the system of taxes and, generally, the tax contributions to the state or a system of levying of taxes by public authorities in order to achieve socio-economic functions of the state (Saguna, 2003, p.345) or of a "system of incorporation state revenues by redistributing national income contribution taxes covered as legal rules "(Condor, 1996, p.147).

Economically, the tax is a set of economic processes of redistribution of value, from individuals and legal entities available to the state, and from there to the satisfaction of public needs, which necessarily includes tax levies to public financial funds, as processes of getting resources with their allocation to finance public expenditure.

By comparison, we note that in previous approaches, the concept of taxation is grafted only on processes of sampling parts of income or wealth of individuals and businesses available to the state under tax forms, according to the provisions concerning mandatory tax levies achievement. Thus remain uninvolved the processes of resource allocation and utilization of accumulated state, although they are only usable to provide free services and, in general, public utilities for the benefit of members of local governments. Or, in terms of economic and reasoning of its existence as a social phenomenon, taxation is justified to be approached, both in terms of fiscal resource mobilization processes and the processes of allocation and use of these resources to meet the needs that are deemed to be public and involving relationships between public authorities and members of local and state type.

As the existence of taxes, the presence of taxation is due to the origins of the manifestation of public or social needs. They are delimited by the individual ones which are paid directly to each person and the concern for their satisfaction leads to the purchase of goods and services on the market in question by the price paid by their suppliers according to their own choices and possibilities. In contrast, the public needs are more difficult to be acknowledged (Done, 2002, pp. 182-186), and it is sometimes even difficult to realize the benefit of certain goods or services offered by community such as national security, public order etc. In fact, any community, rich or poor, has to solve the problem of procuring the resources needed to ensure its members to provide common goods and services, social and public fundsize required depends on the purposes for which they are established by area activities to be finance or state obligations, proportions involving taxation.

It is obvious, therefore, that states can conceive phenomenon of taxation at both large and small scale, as it admits the possibility of meeting the total need more or less through public services. In correspondence with this option it is accepted, implicitly, both large and small utilities in meeting the total need about private insurance, which means that their costs occurs in the of individuals and businesses on account of their private income.



Incidence of taxation and its dimensions, reflected through the fiscal pressure rate

Therefore, sizes of taxation can be given synthetically through taxation rate(t_r), calculated at the national level, as the ratio of the total amount of taxes and mandatory contributions collected by tax authorities or tax levies ($\sum T_i$) and the size of gross domestic product (GDP), according to the following relationship:

$$t_r = \frac{\sum T_i}{GDP}$$

Expressed as a percentage, taxation rate shows what percentage of GDP carried out is available to the state by focusing procurement forms of taxes and mandatory contributions and its level relatively gives an overview of fiscal pressure exerted on the country by incurring taxes, charges and mandatory contributions by taxpayers, highlighting the differentiation of political views on proportions of taxes and involvement in financing public expenditure.

The necessity of collecting taxes from taxpayers to finance public expenditure and taxation prints an objective, but the latter is attached also a psychological component, the fiscal pressure (Florescu, *et al.*, 2005b, p.74) aimed at tolerance from the taxpayer to the tax liabilities incurred.

From the perspective of the taxpayer, the tax pressure rate expresses the extent that the income is deprived of much of its use constituted a deterrent to the taxpayer, which also has psychological effects and reactions of the most diverse, pushed to the use of brutal forms ignoring the legislation and practice of evasion or tax fraud.

In this respect, the incidence of taxation is marked both by the processes of redistribution of income and wealth, and as a factor of pressure on taxpayers and the tax burden rate is considered of major importance in all states more or less developed, with deep solutions adopted having economic and social implications.

Approached at the level of person or individual, the taxation rate implies tax individualisation with the corresponding calculation base and can be determined at its level, as the ratio between the amount paid and the amount of related income taxes, taking into account the tax base as the following relationship:

$$t_{rp} = \frac{T_{nk}}{I_{nk}}$$

where t_{rp} – tax rate for one person, taxpayer; T_{nk} – taxes supported by person k ; I_{nk} – the amount of incomes obtained by person k .

It is thus justified the emerging concerns tax for the determination and analysis of the tax ratio, not only as a share of GDP fiscal levies but also of social categories, namely the taxpayers or groups of individuals (Filip, 2002, p.83). In this case it is aimed the size of the tax burden, reflected in the share of fiscal total revenue for those taxpayers, enabling comparisons and assessments bearing on the possibilities of this tax burden. For this purpose it can also be used family budgets as sources of information for determining the size of both the revenues and the taxes borne by the respective families. The calculation formula applied in this case is the following:



$$t_{rj} = \frac{\sum T_{ij}}{GDP} \times 100 \quad (3)$$

in which: t_{rj} - tax rate borne by a sector of the population; T_{ij} - tax levy borne by population category "j" corresponding to each category of population.

The determination of the tax rate on taxpayers' categories also allows the analysis of tax characteristics of different choices practiced, and offers support, both in terms of efficient taxation system structure adopted at a time, social stability and steady supplier of office and election quotas and ways of determining the percentage of tax payment. In this context, we can notice its usefulness to the structuring of taxable income on installment for progressive taxation, so as to ensure the requirements of tax fairness.

It may also be of interest the knowledge of fiscal pressure expressed by tax rate for each tax separately quantified, but especially for major taxes, prompting it as a ratio between the amount of tax or other levies related to a tax or another and the indicator GDP at national level, according to the following relationship:

$$T_{rt} = \frac{\sum T_{it}}{GDP} \times 100 \quad (4)$$

where T_{rt} - tax ratio generated by analysed tax; T_{it} - the amount of tax levy corresponding to a specific tax.

The determination of the tax rate for each type of tax (payroll tax, to value added, excise, etc.) can be conceived as a ratio between the amounts collected and bases of calculation: gross salary, profit, turnover of the company, etc. (Vascu 1997, p. 94), including the case of property tax, taking into account specific calculation bases. In particular, modern enterprises make such calculations for determining tax expense ratios and taxation in their evolution in order to develop their decisions, especially in the sphere of investments.

From a short term perspective, it may be noted that taxes collected by the state from economic agents shall be constituted, in their view, in elements of fiscal pressure.

This is especially pronounced as the share in value added tax made by companies is greater, taking into account indirect taxes such as excises and the VAT, although they are not actually incurred by companies, but the argument that they affect sales volume and competitiveness through the increased level of prices.

Therefore, in a global vision, the fiscal pressure that confronts the company tax rate can be expressed by the following relationship:

$$t_{rc} = \frac{AV}{T} \times 100$$

or

$$t_{rc} = \frac{AV}{T} \times 100$$

in which t_{rc} - tax rate at company level; AV - the added value achieved at company level; T - turnover at the company level, which is less relevant.

A more rigorous alternative of expression to the company tax rate would be determined by excluding those taxes paid by the company only as intermediary, but in fact supported by others, such as indirect taxes, payroll taxes, CAS, etc., from the total amount of tax levies performed (Filip, 2007, p.112), the calculation being the following relationship:



in which: $\sum T_{it}$ - the total amount of tax levies made by company; $\sum A_{tb}$ - the amount of taxes (including indirect ones) borne by other persons (from own revenues).

It is obvious that the tax burden by buyers or consumers of products sold or by the company's employees can not be attributed to companies, raising unjustified taxation rate considered at their level, although there is the tendency of such an interpretation.

A less realistic representation of the dimensions of taxation is considered to be the number of "confiscated hours of professional life" (Lefebvre, 2003a, p.668) by payment of tax liabilities, taxes. Thus, starting from individual life cycle of an employee expressed in "n" hours, it can be accepted that for compulsory taxes, each taxpayer is confiscated a number of hours of professional life and the rate is proportional to the share of hours linked to taxes. Thus, in a professional life of "n" hours worked, the number of hours of work needed to cover the various forms of tax paid varies by socio-professional category, but also by the social, personal situation, especially considering indirect taxes. Although arguable as approach, calculations of this "confiscation of professional life" through taxes show that it is 20 years for senior manager and 17 years and 2 months for taxpayer with average wage. In turn, taxing the car confiscates from the professional life 2 years for a senior manager, but three years and five months for taxpayer with minimum wage and social contributions only seven years of life; almost as for taxpayer with the minimum wage and for senior managers, as for general health contributions, and VAT respectively 1 year and 2 years of professional life (Lefebvre, 2003b, p. 669).

On the other hand, there are several angles of interpretation of the tax burden, and the most frequently mentioned are considering either tax payer's perspective or that of the state, the role of tax collector or economics, respectively public finance.

Seen in the light of the tax payer, the tax burden expresses the degree of subjecting the taxpayer to bear the tax burden established by the law. Even the name of fiscal pressure is likely to suggest that it signifies, for the payer, an obligation. Therefore, the size of the tax burden shows what percentage share of taxable income that constitutes the taxable matter will be taken for the general needs of society. By default, increasing fiscal pressure coefficient indicates a relative increase in the levy to the state budget, meaning a relative reduction in available income, while a reduction means keeping a greater portion of income earned by the individual at his disposal.

Consequently, any change to the marginal rate of taxation, respectively of fiscal pressure means, if an increase, a penalty of the work effort and increase of income and, if prices fall, an encouragement to this effort.

If the interpretation is done from the perspective of the state, with the role of tax collector, tax burden size indicates how much of the national income created in the economic activity is to be considered as budget revenue in the way of taxation and public spending to provide funding. For the state, increasing the burden favors



increasing budget revenue receipts and financing higher budget spending, while a decrease warns them of the possible tensions to their coverage and the occurrence or increase of the budget deficit.

2. Decisive factors of tax size and their influence in the relations between taxation and development

In light of quantitative side of levies as taxes or fiscal redistribution processes, evolution in time and space of the proportions of taxation highlights various trends particularities, especially in terms of economic and social development level of each country. Thus, recognizing that the scale of fiscal redistribution reflects the level of taxation or tax burden generically expressed through taxation rate, there are striking differences, to increase or reduce it at different times, in the same country or in different countries. Such differences are determined by various factors, reflected through economic and social policy objectives pursued by governments within programs, marked not only by political options of the groups represented in the government, but also by manifestation of conjunctural situation in the real economy or considerations subjectively, etc.

It is interesting to analyze changes in the level of taxation, the behavior of the factors involved in quantifying tax burden, firstly, the size of taxes, in the sense of the overall amount collected from the total taxable material associated with the size and structure percentage rates of taxation on the one hand and the amount of taxable material made of income, wealth, on the other hand. Thus, if an increase in the tax rate while taxable matter remained at the previous level, it means that there has been a change in individual tax rates, for example, portions of income or revenue categories, which can discourage economic activity. Conversely, if there is a decrease or maintain of the tax rate while the volume of taxable increased, it can be appreciated that the size of tax rates is stimulating for economic development.

It appears, moreover, that for the evolution of contemporary society, it appears characteristic the tendency of assuming by governments, in addition to the traditional tasks, the concern to promote actions aimed interventionist involvement based on tax system, along with other tools to influence economic and social life, and that, overall, is a general tendency to increase taxation. This does not exclude that in periods when governments are moving towards supporting private initiative in the economy, to be promoted a certain relaxation of the tax burden. But usually such periods alternate with those in which the state assumes greater tasks including intervention in economy, which makes the tax rate increase on the whole.

In the same context, the finding appears significant that in developed countries, direct taxes paid by individuals and legal entities hold an important place in overall revenue tax being deducted at source and easier to control, based on the declaration of taxpayers by bodies tax, while income tax or consumption-type VAT taxes, including excise and customs duties are applied widely, but their contribution is reduced by tax evasion. In contrast, in less developed countries, fiscal resources are lower primarily due to lower levels of income and principal place comes to indirect tax.



Another factor having a major impact on overall tax ratios proves to be the economic situation as it affects the size of financial income as a result of the influences acting on tax yields. In this regard, it notes that the sensitivity of financial-fiscal efficiency to economic circumstances may be determined by two special factors (Onofrei, 2000, p. 60): taxable material and technical tax.

In relation to the first specific factor, it is observed that if the taxable matter is generated by the economic activity itself, as in the case relating to turnover taxes, fiscal efficiency sensitivity is very high, although their size varies depending on the nature of the product charged. For example, consumption taxes on luxury goods are more sensitive to economic conditions than the same charges applied to goods of basic necessities.

On the contrary, state tax charged for purchases for investment is very sensitive to the economic situation, since these acquisitions increase or diminish according to changes in the evolution of the economic environment, which causes changes in the volume of investments.

In contrast, if the taxable material is the income, sensitivity varies according to the nature of the obtained income. The tax is extremely sensitive to the economic situation, while tax revenue of employees from public sector does not change at all, depending on the circumstances.

Finally, if the taxable matter is the capital, the sensitivity of tax yield is very low excluding the value added tax on the estate - which changes during periods of economic expansion and follows closely the conjuncture, causing significant changes in the level of taxation plan or tax pressure.

On the second specific factor called generic taxing technique, it should be noted that taxable valuation methods are reflected in the tax yield more sensitive to economic conditions. Thus, the assessment rate or the one based on external signs of wealth are sensitive not only to a limited extent to cyclical developments of the economic environment. In comparison, the way of determining the amount of tax in variants known as fixed amount per unit, proportional or progressive rate percentage rates, etc. influence the sensitivity of the tax efficiency, but differently. Thus, the application of progressive taxation percentage rate increases to proportional taxation tax return, which does not affect equally the volume of accumulated earnings in taxes globally.

In the same framework, we find that the level of economic development also exerts influence over public expenditure, particularly on the volume and nature of the investment. Especially in less developed countries, investment needs are to justify the sacrifices supported by public effort, given the low volume of private spending. In contrast, in developed countries, investment spending emergencies have another connotation, they often aim at improving the technical development for large companies to withstand fierce competition specific to competitive economy.

Economic conjuncture also affects the size of public expenditure and, in this sense, recessions usually lead to increased amounts spent on social action, social assistance and unemployment allowance, through which the state should financially support the affected population by lack of a job. In addition, the price



increase causes the state to resort to increasing operating costs of public institutions and amending budget operations, which equates to authorize those expenses increase, although making decisions regarding the size and structure of public expenditure, the government's will remains predominant, including opposing, in a more or less obvious way, the trend of increasing their volume, risking social unrest or political cause among citizens. But typically, volume variations cause variations in the size of public expenditures covering financial resources and therefore taxation.

It appears more and more evident that fiscal policy decisions of government authorities reflected in the evolution of taxation are directed towards influencing economic and social development processes. In this respect, econometric models were developed which highlight the fact that both changing the proportions of tax levies and those related to public expenditure as investment or transfers can have beneficial effects on economic growth, although deviations from a level considered "optimal" can generate them contrary effects to those desired.

Naturally, the approach of econometric models with the integration of taxes involves their concretization through specific variables or processes of tax levy, reflecting the impact on economic activity of private companies, pointing out that, in principle, the level of growth slows down economic growth, while their reduction is likely to spur this growth.

In the same context it is worth noting the fact that taxation and the fiscal policy that is reflected by the two fundamental variables, consisting of the amount of public spending and tax levies, whose changes appear determined as well as decisive, in relation with the main indicators of socio-economic development.

3. Economic governance and strengthening fiscal coordination and harmonization processes in the European Union

Economic and financial crisis has caused many shocks difficult to remove from the economies of EU countries without taking tax measures in the tax system of each member country. In the way to mobilize states to resist macroeconomic imbalances and in the current context of the general policy of the Union, it is becoming increasingly imperative the promotion by governments, of fiscal policy as a lever of public policy. Within the European Union there has not been a single European tax system, which has lead to tax competition between different tax systems belonging to components countries.

The harmonization of Member States' tax regimes was a major and permanent concern since the establishment of this organization, and simultaneously, a prerequisite of accomplishment in terms of fundamental freedom: free movement of persons, goods, services and capital within the European single market. The scope and purpose of tax harmonization process at Community level, is to achieve a "unification tax" toward standardizing procedures as well as the tax bases and tax rates to arrive at a "tax coordination" of tax systems in Member States.

The desire to maintain sovereignty in tax policy from Community countries had result in a heavy development of the whole process of tax harmonization and long overdue changes have not occurred but have only been limited to certain types of taxes, namely to indirect such as VAT and excise duties. In the area of direct taxes, tax harmonization measures were much lower and have focused on avoiding double taxation, reducing tax evasion and achieve free market competition. The perpetuation and deepening the effects of economic and financial crisis and debt in recent years has achieved equally both old villages EU economies and the new member countries, causing numerous social and economic imbalances. These phenomena have forced governments assuming new priority objectives such as reducing budget deficits and public debt and concomitant the recovery in activity with positive effect on the sustainability of public finances.

The achievement of these objectives in the fiscal policy of EU countries imposed them a new orientation, which consisted in a direction toward fiscal coordination and governance. During this period, fiscal policy measures taken by Member States in order to increase tax revenues have been reflected in government policies in various forms such as: reducing public spending, lowering taxation on labor, reduction of tax on capital, increasing VAT tax rates. Convergence of tax measures applied mainly by increasing tax rates on consumption and property had in mind in most European countries, moving tax burden from labor to consumption and property sphere. These changes occurred also in the tax system in Romania and concluded in particular in promoting changes by the government in tax laws, in particular the VAT uniform reduction of wages, eliminating special pensions of certain categories of pensioners and the introduction of new taxes on property, especially on the estate.

Fiscal governance at the level of EU has been marked in recent years, less than the tax harmonization process and more by fiscal coordination action which aims specifically the achievement of fiscal stability and public debt reduction of states.

Conclusions

The relative level of a country, reflected in the rate of taxation is based on the general policy guidelines promoted by the government and shows the real financial and economic status of those involved, meaning that the lower level of GDP in less developed countries is decisive in meeting their much lower need for social utility. In this regard it is worth noting the lower tax rate in less developed countries compared to the one from developed countries. The phenomenon cannot be assessed as favorable in less developed countries, given the fact that a lower tax rate existing in less developed countries corresponds a standard of living much lower than that from developed countries. This phenomenon occurs today in the economies of the EU countries where fiscal policies pursued by their governments, have led to significant differences in the structure of taxes in total tax revenues. It is clear that developed countries have tax systems based on direct taxes while



countries with less developed economy promote tax systems which are based on indirect taxes.

Without ignoring the action of other factors of influence, it is admitted that the economic situation or GDP per inhabitant marks both on the formation of public financial resources and financing public spending and thus on taxation. In this regard it is noted in the first place, that the size and structure of collected revenues available to the state especially in the form of taxes are determined both by the size of public spending meaning common consumption and the level of economic development of each country plus tax receivables management and quality of the state, the degree of voluntary compliance in paying taxes and contributions due from taxpayers, was in connection with tax evasion and fraud dimensions in each country.

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ARE INTERNATIONAL TRADE FLOWS A VECTOR OF GLOBALIZATION?

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Abstract: *International commerce and regional integration have long been considered key determinants of national development. The purpose of the present paper is to answer the question whether international trade flows are a vector of globalization and economic growth. In order to achieve this, we have conducted panel data analysis on a sample consisting of members from regional economic structures, such as the E.U., NAFTA, MERCOSUR and ASEAN, and covering a time span of 24 years, from 1990 to 2013. The results of the study underline the fact that, on average and taking into account the heterogeneity of the sample, international commerce counts from around 50 % of the annual economic growth. The future research direction will aim to conduct a more thorough analysis, by focusing more on the regional perspective.*

Keywords: globalization; trade flows; panel data analysis; EU; MERCOSUR

Introduction

Considered to be the most complex and dynamic process of the last decades, globalization represents today a key research topic within the academic environment. One of the issues concerning globalization is quantifying its impact on the international economy, which can be conducted by employing alternative methods, given the fact that a direct approach raises numerous difficulties.

The process of economic globalization has reshaped the international economic framework. Taking as a starting point the definition provided by Jagdish Bhagwati (2004), which states that globalization represents the integration process of national economies within the international economy, through commercial flows, foreign direct investments, other short term capital flows, technologic flows and labor flows, the analysis can be centered on its main transmission vectors, namely trade and FDI flows.

The purpose of the present paper is to answer the question whether international trade flows represent vector of globalization and economic growth. In order to do this, we employ a panel data approach on the commercial flows between the European Union, NAFTA, MERCOSUR and ASEAN, with the

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purpose of highlighting the economic linkages and the interdependence relations which arise among these four regional economic structures.

Related to the aim of the present study, the international literature has put forward a set of interesting and somewhat opposing results. Taking into account the complexity of the analyzed process, as well as the extensive volume of literature, these contradicting opinions are related to the methodological approaches used, either qualitative or quantitative, the variables which were employed in the research and, additionally, the statistical instruments applied (De Haan *et al.*, 2008).

Starting from the issue of variables employed in the analysis, the most common one used is the GDP, which can be found in an extensive number of studies (Fidrmuc and Korhonend, 2010), (Darvas and Szapary, 2004), (Artis, 2003), (Li and Liu, 2004), (Otto *et al.*, 2001). In close connection with the purpose of the present analysis, we are more interested in the studies which have estimated the impact of globalization via the relation between the GDP and commercial flows, trade integration and trade openness. A significant part of the literature highlights the importance of international trade linkages as an explanatory variable for the effects of globalization in the international economy, taking into account the fact that an increased rate of the commercial flows between two or more countries can explain a stronger regional integration, as well as convergence patterns.

Traditionally, the international commercial component is believed to be one of the best indicators regarding the transition towards a global, interconnected economy. The international literature (Frankel and Rose, 1998), (Kose *et al.*, 2008) highlights the importance of the trade channel in explaining regional or global convergence patterns, focusing mostly on bilateral trade relations and trade integration. Frankel and Rose (1998), together with Imbs (2004), have proved the existence of a strong positive connection between the degree of bilateral trade intensity and cross-country bilateral correlation of business cycles.

In addition to the ideas underlined above, it is important to emphasize the fact that the international literature present a gap in terms of studies that have analyzed the impact of the commercial channel between regional economic structures, such as the European Union, NAFTA or MERCOSUR, and moreover, the lack of statistical approaches which can measure these effects. That is the main reason why the present article aims to estimate, by employing a statistical methodology, the economic relations which arise between the E.U., NAFTA, MERCOSUR and ASEAN, considered to be the main advocates of globalization.

The remaining part of the article is structured as follows: section 2 presents the data, the variables employed in the study and the methodological approach, section 3 displays the computed model and the implications of the results, while the last section underlines the main conclusions and the future study directions.

1. Population, data and methodological approach

1.1. Population and data

In line with the purpose of the present study, we have selected a sample comprised of all the members of the European Union, NAFTA, MERCOSUR and ASEAN, totaling 51 entities. The motivation for choosing this sample resided in the fact that four regional economic structures mentioned above represent the main advocates of international commerce, perceived as a globalization vector. The list of chosen countries can be consulted in Annex A.

The variables employed in the study are as follows:

- GDP % growth - Annual percentage growth rate of GDP at market prices;
- Imports of goods and services - Annual percentage growth rate;
- Exports of goods and services - Annual percentage growth rate;

The motivation for choosing these variables resides in the fact that, as stated in previous studies, commercial flows represent one of the main transmission channels of economic growth in the global economy, alongside foreign direct investments. Furthermore, we have selected the two independent variables as annual growth rates in order to outline the structural changes that occur within a national economy over time.

The data was collected from the Word Bank database, as well as from the UNCTAD and OECD databases, based on their specific calculus methodology. The analysis covers a time span of 24 years, from 1990 to 2013, mainly because this period engulfs important changes that occurred within the four economic blocks, i.e. the E.U. enlargement waves, the introduction of the EURO currency, as well as the enactment of NAFTA and MERCOSUR, and also, due to the availability of the data.

1.2. Methodology

The article uses panel data analysis with the purpose of describing the dynamic behavior of the parameters and also to offer a more efficient estimation and information regarding the variables. Panel data analysis presents the advantage, over individual cross-section and time series analysis, that it diminishes the hazard of biased results and provides more observations. This in turn amplifies the degrees of freedom and the variability and offers the possibility to study the structural dynamics of the series (Hsiao, 1986), (Baltagi, 1995).

The international literature clearly states that any panel data approach has to follow 4 distinct steps, which are the stationarity check for every time series used, the panel co-integration tests, the panel data model which can present fixed and/or random effects, or no effects (sometimes called pooled models), and last off, the Granger causality relations.

From a methodological point a view, a series which is stationary implies that it has the mean, the variance and the autocorrelation constant over a given period



of time. One of the most suitable methods for testing the stationarity of a series, as regards to panel data, is the one proposed by Im, Pesaran and Shin (IPS) (2003), which represents an extension of the Dickey-Fuller method.

When a series is not stationary, the following step is to test the co-integration, using the panel co-integration tests proposed by Pedroni (2004).

The panel data method proposes three methods of analysis, namely that is the fixed effect method, the random effects one, and a combination of the two, known as a mixed model. A fixed effects panel data model starts from the assumption that the constant is member of a certain group, thus permitting for different constants to belong to each group section. The equation for the fixed effects model is

$$y_{i,t} = \alpha + \beta x_{i,t} + \mu_i + v_{i,t}$$

where, μ_i and $v_{i,t}$ are the decomposition of disturbance term. Whereas μ_i incorporates the individual specific effect, $v_{i,t}$ denotes what remains of the disturbances, which fluctuates across the time and the entities, thus incorporating the random behavior of $y_{i,t}$.

As opposed, within the random effects model the constant is perceived as being stochastic. Each cross-sectional intercept derive from the general intercept α , which is identical across-section and time. To this we add a the random variable ε_i , which depicts the variation along the section, but is fixed across the analysis period. Within this model, the ε_i estimates the stochastic deviation for each individuals entity's intercept from the common term α .

The equation for the random effects model is:

$$y_{i,t} = \alpha + \beta x_{i,t} + \omega_{i,t}, \text{ where } \omega_{i,t} = \varepsilon_i + v_{i,t}$$

The advantage, by comparison to the fixed effect model, is that this particular model does not use dummy variables in order to estimate the variation, this being done via the ε_i term. The calculus method uses the Generalized Least Squares method, as an alternative to the OLS one.

In the panel data approach we employ the Hausman test to compare the random and the fixed effects, based on the null hypothesis that individual effects register no correlation with the other regressors of the model (Hausman, 1978). If correlation occurs, thus rejecting the null hypothesis, the model which depicts fixed effects is favored.

The Granger causality method tests to what degree the preset values of y can be explained by its past values, and also, to estimate if historical values of x can offer an additional explanation as regards to the behavior of y .

The Granger causality computes, taking into account all possible pairs of (x,y) series in the group, bi-variate regressions of the form:

$$\begin{aligned} y_t &= \alpha_0 + \alpha_1 y_{t-1} + \dots + \alpha_i y_{t-i} + \beta_1 x_{t-1} + \dots + \beta_i x_{t-i} + \varepsilon_t \\ x_t &= \alpha_0 + \alpha_1 x_{t-1} + \dots + \alpha_i x_{t-i} + \beta_1 y_{t-1} + \dots + \beta_i y_{t-i} + v_t \end{aligned}$$

Following the null hypothesis, we can imply that x does not Granger-cause y , or, as regards to the second equation, the y does not Granger- cause x . If the results reject the null hypothesis, then there is a causal link between the two series, which manifests itself with a certain, predetermined time lag.

The computations for the present analysis were done using the EVIEWS 7.0 statistical software.

2. Results and discussions

The result in Table 1, computed for the 3 series, highlight the fact that they are all stationary. Thus, there is no need to test for co-integration.

Table 1. IPS panel unit root test result

Variable	IPS panel unit root test result (Level) Null: Unit root (assumes individual unit root process)
%GDP	-10.8873, (0.0000)***
%IMPT	-14.9874, (0.0000)***
%EXPT	-14.4155, (0.0000)***
	P-values are in parentheses.*** shows significance at 1%.

Source: author's computation in Eviews 7.0

Following the stationary test, the next step is to conduct the panel data analysis. In order to do this, we calculate the parameters' estimation and their significance by employing the Ordinary Least Squares (OLS) method. The results in Table 2 present the estimations for all the possible models. For this particular analysis, the model with no effects has not been taken into account, because it is not accordance with the purpose of the study. Thus, we propose the following model, which depicts cross-time fixed effects and cross-section random effects:

$$\%GDP_{i,t} = \alpha_0 + \alpha_1 IMPT_{i,t} + \alpha_2 EXPT_{i,t} + \omega_{i,t}, \omega_{i,t} = \varepsilon_i + v_{i,t}$$

Table 2. Equation parameters estimations

Variable	Fixed/Fixed	Fixed (country) Random (year)	Random (country) Fixed (year)	Random / Random
<i>IMPT</i>	0.039515 0.0000	0.040246 0.0000	0.039458 0.0000	0.040162 0.0000
<i>EXPT</i>	0.086805 0.0000	0.095781 0.0000	0.095747 0.0000	0.103973 0.0000
<i>c</i>	2.302080 0.0000	2.236398 0.0000	2.242380 0.0000	2.181945 0.0000
<i>R</i> ²	0.444200	0.323103	0.322432	0.154292
Idiosyncratic random		3.307057	3.307057	3.307057
Cross-section random			1.171272	1.171272
Period random		0.965105		0.965105

Source: author's computation in Eviews 7.0

The results in Table 2 highlight the fact that only one model reports a significant value for *R*², namely the one with fixed effects across both dimensions.



It is important to underline the fact that, even though the statistics theory clearly states that the value for R^2 needs to be equal or greater than 50 in order for the model to be considered valid (Jaba, 2002), from an economic perspective, the results can be perceived as normal. To be more exact, it is unrealistic to state that, on average, the commercial vector can explain more than 50% of the annual growth rate of the GDP, bearing in mind the fact that every economy relies also on national production and consumption. This situation also highlights the heterogeneity of the sample.

Hence we propose the fixed effects model for both the cross-section and cross-time dimensions. This result comes to supports previous findings in the literature (Enea and Palasca, 2012), which underline the fact the randomness of the process can be reduced by using less independent variables.

Therefore, the proposed model is:

$$\%GDP_{i,t} = \alpha_0 + \alpha_1 IMPT_{i,t} + \alpha_2 EXPT_{i,t} + \mu_i + v_{i,t}$$

which becomes

$$\%GDP_{i,t} = 2.3020 + 0.0395IMPT_{i,t} + 0.0868EXPT_{i,t} + \mu_i + v_{i,t}$$

A quick glance at the proposed model highlights a few basic rules from the international economics theory, namely the fact that, within one year, the international commercial channel acts as a catalyst, determining economic growth. Furthermore, as regards to the result for the constant, or c , the implication is that if it registers a 1% increase, this will determine a 2.30 % increase of the annual GDP growth rate. Now it is important to understand the fact that this situation occurs if international commercial linkages are non-existent, meaning that a national economy is autarchic and self-sufficient. This of course is an unrealistic scenario, but the value of c highlights the importance of the endogenous characteristics of a national economy (production, market size, consumption etc.), which determine economic growth.

In order to assess to long term linkages between the GDP, the imports and the exports, we have tested the Granger causality amid the three variables, taking into consideration 3 lags.

Table 3. Granger causality

Causality relations	Lag 1	Lag 2	Lag 3
<i>IMPT – %GDP</i>	0.1197	0.1815	0.4559
<i>%GDP – IMPT</i>	0.0001	0.000004	0.0000000000000003
<i>EXPT – %GDP</i>	0.1655	0.3572	0.3610
<i>%GDP – EXPT</i>	0.0079	0.0004	0.00006
<i>EXPT – IMPT</i>	0.0003	0.0284	0.00000000004
<i>IMPT – EXPT</i>	0.0077	0.0048	0.0012

Source: author's computation in Eviews 7.0

The results of the Granger causality test, depicted in Table 3, highlight a series of interesting insights as regards to the linkages between the three variables, confirming ideas previously underlined by the international literature and also offering some new pieces of information.

First of all, in terms of the relationship between the gross domestic product and the international commercial flows, there is little new information. The annual growth rate of the GDP has an important impact on future growth rates of imports and exports, even after 3 years (lag 3), thus highlighting a continuous trend of sustainable development among the countries comprising the sample. This is in line with the theory of international commerce, which states that when a country develops itself, it becomes more active within the international economy.

On the other hand, we find it curious that historic import and export flows have little effect on the annual growth rate of the GDP. This situation contradicts previous findings from the literature and it can seem rather bizarre. A plausible explanation for this particular result can be the heterogeneity of the sample. Even though all the countries included in the analysis are members of regional economic blocks, their participation in the international economy is distinctive. Some rely heavily on imports to support their national production and consumption processes, while others are more balanced in terms of commercial flows. Take for example the case of Croatia, which registered an average growth rate for imports of 24%, and only 5.5% average growth rate for exports, throughout the entire period of analysis, or Argentina (13% / 5.6 %), compared to Germany (5.27% / 5.90%), or the United States (5.59% / 5.57%).

Finally, we have the causal relation between imports and exports, which can be best explained by referring to the international activity MNCs. If take into account the operations of a foreign subsidiary of affiliate, which requires imports of raw materials or intermediate products and subassemblies for the production of various commodities, which are later exported to different international markets, we find that these commercial flows depict a continuous linkage between them. This situation is in accordance with the theory multinational corporations, as well the one regarding foreign direct investments.

Conclusions

The present paper aimed to answer the question whether international trade flows represent vector of globalization and economic growth, further wanting to highlight the economic linkages and the interdependence relations which arise among these four regional economic structures.

The research has conducted a regional study on a sample of 51 countries, comprising all of the members of the European Union (28), NAFTA (3), MERCOSUR (10) and ASEAN (10), covering a time span of 24 years. The choice regarding the time span was dictated by the wish to encapsulate the important events and changes that have occurred, especially the enlargement waves of the European Union, the enactment of the NAFTA and MERCOSUR Agreements, the introduction of the EURO currency, as well as by the availability of the data.

In close connection with the purpose of the study to assess the quality of the commercial transmission channel as a vector of the globalization process, over the proposed period of analysis, we have employed panel data approach. The



computed results have offered only one valid model, namely the one depicting fixed cross-section and cross-time effects.

The fixed effects model that we have proposed and tested presented very interesting results as regards to the relationship between the GDP and the import and export flows. First of all, the results have reemphasized the importance the international commercial channel for a country, acting as a determinant of economic growth. What is more, the model underlined that the national characteristics of an economy, such as production, market size, consumption etc., represent a key component of sustainable development.

The results of the Granger causality test have underlined the existence of a unidirectional and continuous relation between the gross domestic product and the international commercial flows. More accurately, the annual growth rate of the GDP has an important time effect on imports and exports, thus highlighting the fact that national economic development represent a key condition for being competitive on the international commercial market.

The reversed situation is somewhat peculiar, namely that the trade channel has no impact on the annual growth rate of the GDP. This situation is closely related to the heterogeneity of the analyzed sample, which underlines the fact that countries, depending on their national economic characteristics, take part differently in the international economy. Some are depict a balance in terms of commercial flows, while other are more focused on fulfilling their internal consumption needs.

In terms of the relationship between imports and exports, this is bi-directional and continuous. Both types of flows act as catalyst for each other, mainly due to the activities of MNCs' manufacturing capacities. These subsidiaries act either as inter-firm trade agents, or direct links to national markets.

The limitations of the study derive mostly from the size of the sample, as well as the type of variables employed in the analysis. That is why the further research direction will aim to develop a more thorough analysis, by focusing on regional perspectives, and furthermore, to use commercial flows perceived as percentage of the GDP.

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Appendix

Analysed countries

No.	Country	No.	Country
1.	Argentina	27.	Cambodia
2.	Austria	28.	Lao PDR
3.	Belgium	29.	Lithuania
4.	Bulgaria	30.	Luxembourg
5.	Bolivia	31.	Latvia
6.	Brazil	32.	Mexico
7.	Brunei Darussalam	33.	Malta
8.	Canada	34.	Myanmar
9.	Chile	35.	Malaysia
10.	Colombia	36.	Netherlands
11.	Cyprus	37.	Peru
12.	Czech Republic	38.	Philippines
13.	Germany	39.	Poland
14.	Denmark	40.	Portugal
15.	Ecuador	41.	Paraguay
16.	Spain	42.	Romania
17.	Estonia	43.	Singapore
18.	Finland	44.	Slovak Republic
19.	France	45.	Slovenia
20.	United Kingdom	46.	Sweden
21.	Greece	47.	Thailand
22.	Croatia	48.	Uruguay
23.	Hungary	49.	United States
24.	Indonesia	50.	Venezuela
25.	Ireland	51.	Vietnam
26.	Italy		

MIGRATION INTEGRATION AS A FACTOR OF ECONOMIC AND REGIONAL DEVELOPMENT IN THE EUROPEAN UNION

Petronela Daniela FERARU*

Abstract: *International migration, together with economic and financial crisis or the different socio-economic development of Member States, is a serious threat to security in Europe. Population migration as a threatening factor, places the European Union in the face of a decision to establish clear policies for the establishment of a climate of external security, both for the migrant population and for the rest of the population. All in all, this study will centre on the following hypothesis: the better we know the challenges of international migration in the European Union and its Member States the more the European policies to mitigate negative effects of the world will be diminished. The aim is to highlight aspects pertaining to migration integration as a factor of economic, social and regional development in the European Union, and less as a factor of destabilization and insecurity. In other words, a good knowledge of the phenomenon leads to drawing up effective policies to reduce hazards, risks, threats and negative effects that happen today due to the increasing number of immigrants. Finally, the study will present a series of conclusions, including on the work hypothesis verification and some proposals related to migration integration efficiency as a factor of regional and economic development in the European Union.*

Keywords: integration; international migration; economic development; regional development

Introduction

International migration contributes to economic growth in the European Union and requires a climate of mutual responsibility and solidarity between EU countries. The effects of migration are both negative and positive, they target both countries involved in the act of migration, the country of origin and that of adoption. An example is the provision of resources for migrants and their home countries and thus the participation in their development. This can be an opportunity, because it is a factor of human and economic exchanges and also because it allows people to achieve their aspirations. Migration management is required, so as to take account of Europe's reception capacity in terms of labor

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market, housing, health, school and social services and protect migrants against the risks they face, once at the destination. In other words, a new approach on the agenda of the European Union is required, one that includes a more selective migration that could help development. We speak of common policies of solidarity and cooperation that take into account the collective interest of the Member States of the European Union. The focus should be shifted from the general interest of these countries to the characteristics of each country of the Union separately.

The aim of this study is to highlight aspects pertaining to migration integration as a factor of economic, social and regional development in the European Union, and less as a factor of destabilization and insecurity. The working hypothesis defined is that as a good knowledge of the phenomenon leads to drawing up effective policies to reduce hazards, risks, threats and negative effects that happen today due to the increasing number of immigrants. At the end of the study, while presenting the conclusions, including on the work hypothesis verification and certain proposals related to migration integration efficiency as a factor in regional and economic development in the European Union, we take into account the results of studies and research previously conducted on the subject.

1. Conceptual delimitations

Conceptual identity is quite used today in literature. Identity is used in a wide range of associations: cultural identity, national identity, ethnic identity, social identity, poetic identity, collective identity.

In the present paper, to avoid accusations of abuse in terms of the concept of identity, we shall not translate the concept in the field of social analysis or apply the principle of identity for its analysis in the social study but we will refer to identity by reporting strictly to the social change in the European Union and Romania.

The transition of the individual who may be a social entity is not changed, he does not go through significant changes related to culture, structure and functions because if these changes occur when coming in contact with other civilizations, culture or society, we would speak of a completely other social entity, of an individual other than the one to whom we refer. Cultural traits are subject to change, but in relation to identity relating to social change we move farther through analysis from the reference object. The conceptualization of identity focuses on the analysis of the concept starting from the notion of identity and of the explanatory capacity of the concept but considering the epistemological and methodological contents. Sociological practice placed us in front of three forms and levels of integration: adaptation, assimilation and participation.

According to the Dictionary of Sociology, social integration is defined as the procesuality of interactions between individual or group and the social environment specifically integral, by means of which a functional equilibrium is reached between the parties. The one integrated can be a person and a group of people, a social category, territorial community, a social subsystem (dictsociologie.netfirms.com). Thus, we refer to a vocational, socio -professional, urban, cultural

integration. While the elements that integrate are subsystems of the social global system, integration is societal. Integration is a relationship, a dynamic interaction between the system that integrates and the integrating system. Assuming the roles and promoting personal initiatives mark the participation phase.

The need to know the conditions that favour the increase or decrease of social integration, of the impact of a high or low level of integration and the need of measurement prompted more analytical approaches to the concept. In the analysis of a social group we found that the simplest units could be: social norms, on the one hand, people and their behaviour on the other. In groups, three integration possibilities arise: between norms, between rules and behaviours, between people. These are elements which dimension social integration as well as cultural, normative, communicative and functional integration.

The concept of migration is defined as the movement of crowds of people from one area to another, followed by relocation and / or employment in some form of activity in the finish area. If we look at the phenomenon with reference to a given population, a perspective mainly adopted by demography then in relation to this population we can speak of two types of migration: *immigration* and *emigration*. In fact any act of migration is both a migration and an emigration.

Sociology studies the migration from a broader perspective. Being concerned of individuals in both situations simultaneously. Also, it is concerned with those territorial movements that involve large masses of people, which constitute the migration flows. Finally, the sociologist interest in this phenomenon is based on the fact that, for the most part, territorial mobility is accompanied by or generates social mobility that is the change of the social status of the migrants.

International migration today takes place under several major forms: labour migration, migration of the members of the family of workers who previously migrated, migration forced by natural disasters, political or religious persecution, wars etc. International migration is, to a significant extent determined by the policies embodied in the specific regulations in relation to emigration, especially with immigration. But determination is not complete because, along with legal migration, illegal migration is also recorded the dimensions of which are often difficult to assess.

A planetary phenomenon of migration is not new, specific to modern or contemporary societies, an assertion that can be supported only by reminding the migration of peoples from the Middle Ages or the slave trade. Migration concentrates around it a broad set of forces of social phenomena, which is why it is a subject for many disciplines, such as demography, population geography, economy, legal sciences, sociology and others. Researchers in these areas have tried to draw diagrams and explanatory theories of the phenomenon, many of them inspired by the theories of fields such as physics (motion of bodies). One example is the "pull - push" model of attraction and rejection factors.

What characterizes the current attempts to explain the phenomena of migration is that macro-social phenomena - "determining" factors and migration are not considered physical forces acting on inert atoms - human beings - but structural elements that the human individuals, as conscious and rational actors,



take into account when considering migrating. In other words, migration as a phenomenon is imagined as the result of a multitude of individual actions of rational agents who assess the costs, benefits and risks (not only in economic terms) involved in such an act, an element derived of course from the characteristics of the system. Recent research also highlights the importance of information as a factor that interferes in the decisions taken by individuals. Another aspect particularly investigated is the integration of migrants in receiving communities. In case of external migration, special attention was paid inter alia to the contacts between populations whose cultures are different, a fact which raises special problems of integration. Naturally, the causality of the forms of manifestations and effects of migration vary widely in time and space, being dependent on a number of historical, economic, political, cultural circumstances, making it difficult or impossible the development of a general theory or of universally applicable models in the description and explanation of the phenomenon.

Another basic concept of the paper is development. They increasingly speak about reducing migration but its costly, ineffective and ethically disturbing. Not few are the authors of literature who claim that there is a strong relationship between development and migration. Starting from this last idea they arrive at a discussion on migration development issues rather than on its reduction. In this context, the huge amounts of money of migrant workers could bring significant potential for the promotion of economic development.

Daniel Gagnier, Chairman of the Board of the Institute of Directors of the International Institute for Sustainable Development (IISD) in an interview for the International Organization for Standardization (ISO) journal talks about social responsibility and the elements of sustainable development. Each IISD program includes economic, environmental and social investigations. These interconnections require, according to Gagnier "using multiple analysis methods and tools. The economy is increasingly interconnected with other areas of research thus providing fertile ground for research on social issues and the way in which they are affected by our economic choices and vice versa" (iso.org).

All definitions of economic development require a vision of the world as reference system. The very advanced concern for the future of our economic and social networked systems in a world of constant change makes those major social disparities even more obvious. We must understand that inaction has consequences and that we must find new ways to change institutional structures and influence individual behaviour. Economic and regional development is not a new idea. Throughout history civilizations people recognized the need for harmony between the environment, society and economy. What is new is the articulation of these ideas in the context of an industrial comprehensive approach and of information societies. The progress recorded in the development of these concepts has been rapid since the 1980s although the progress on the implementation of sustainable development plans has been rather slow. Current trends show an increase of the stress on individuals globally interconnected globally to economic and social systems.

Migration can have significant effects particularly in developing countries. Therefore, good migration policies must go beyond local impact and take into account the mutual effects worldwide. These effects are often stronger in the context of economic development. Here what is called *development-migration-development* represents the connection with everything that means development and is of great interest. We already know that migration is based on relative differences in economic development between countries of origin and that of destination of migrants. However, evidence shows that migration itself may have an important impact on economic development, especially in poorer countries experiencing significant outflows of migrants. This paper attempts to identify ways in which the systems in question should use the impact that migration has for economic development and poverty reduction.

According to a research conducted by the World Bank in 2005, there are three key areas that affect the relationship between migration and development: the effects of emigration of people on short and long term (loss of skills, circulation potential and return migration or of return to the society of origin); the impact of financial flows (remittances and investments); the role of diaspora populations (worldbank.org).

2. Migration as the main factor for economic and regional development

There are many factors that led to the need for a more effective EU strategy to promote the integration of migration in economic, regional, cultural and social development. One of the key factors would be the recognition of the failure to effectively integrate migrants at destination. Among the reasons we find the different opinions on the integration objectives and most appropriate strategies that must be applied to achieve these objectives. All these, as long as the European Union has the necessary means to contribute actively to the development of integration policies. We shall try to determine the obstacles to migration integration in regional and economic development. A first issue concerns the concentration of immigrants in certain regions and cities even if those who have children born in countries of destination and become citizens of that country have increased possibility of mobility to other regions. It is known that net migration in Europe is growing and has become an important factor of economic change (see Table 1).

Population growth, especially if well paid, may boost economic growth. Population growth in a region results in issues in the private sector, can produce new facilities in the area subsequently attracting more migrants. Conversely, loss of population affects taxation at local level, resources are reduced and thus economic development is affected.



Table 1. International migrant stock at mid-year by both sexes and by major area, region, country or area, 1990-2013

Major area, region, country or area of destination	Notes ¹	International migrant stock as a percentage of the total population (both sexes)			
		1990	2000	2010	2013
WORLD		2.9	2.8	3.2	3.2
More developed regions	(a)	7.2	8.7	10.5	10.8
Less developed regions	(b)	1.7	1.4	1.6	1.6
Least developed countries	(c)	2.1	1.5	1.2	1.2
Less developed regions excluding least developed countries		1.7	1.4	1.7	1.7
EUROPE		6.8	7.7	9.3	9.8
Eastern Europe		7.1	6.8	6.7	6.7
Romania		0.6	0.6	0.8	0.9
Southern Europe		2.9	4.9	9.5	10.3
Western Europe		9.2	11.1	12.3	12.7

Source: United Nations, Department of Economic and Social Affairs (UN DESA) (2013)

2.1. Migration - factor for economic development

The debate on migration as a factor of development based on arguments related to the costs and benefits achieved by the countries of origin and of destination including "brain drain" and remittances. To accurately identify the effects of migration on development, growth and poverty reduction it is necessary to know the impact of migration policy on development. Equally important is the analysis of the costs and benefits of migration. In a paper published in 2007 they referred to the social costs of international migration and its conclusions have not fully confirmed that the families of Romanian migrants who went to work in Italy

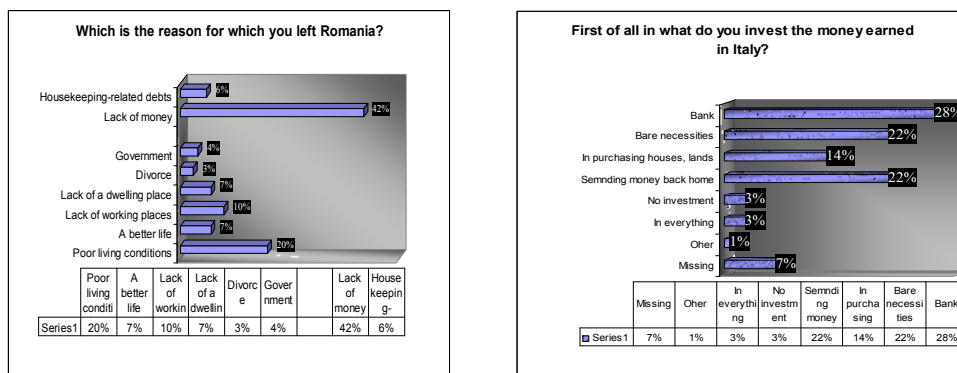
¹ (a) More developed regions comprise Europe, Northern America, Australia/New Zealand and Japan.

(b) Less developed regions comprise all regions of Africa, Asia (except Japan), Latin America and the Caribbean plus Melanesia, Micronesia and Polynesia.

(c) The least developed countries, as defined by the United Nations General Assembly in its resolutions (59/209, 59/210, 60/33, 62/97, 64/L.55, 67/L.43) included 49 countries in June 2013: 34 in Africa, 9 in Asia, 5 in Oceania and one in Latin America and the Caribbean. The group includes 49 countries - Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Central African Republic, Chad, Comoros, Democratic Republic of the Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Samoa, São Tomé and Príncipe, Senegal, Sierra Leone, Solomon Islands, Somalia, South Sudan, Sudan, Timor-Leste, Togo, Tuvalu, Uganda, United Republic of Tanzania, Vanuatu, Yemen and Zambia. These countries are also included in the less developed regions.

focused their economic practices on investment and less on consumption, at least for beginner migrants (Feraru, 2007). The same study showed that actually, the financial capital obtained by Romanian immigrants is used in investment aimed at improving the living standard, for the purchase of homes and lands, long-term protection of the family. These investments define the reasons for the departure of migrants from their country of origin as it can be observed in the following figure (see Figure1) (Feraru, 2007, p.125).

Figure 1. The main reason for Romanian migrants who left home and investing the money earned in Italy first



Source: Feraru, 2007, p.125.

Note: Percentages shown are part of the total sample of 18 people migrants.

The cost / benefit analysis (CBA) is a vital analysis technique for the optimal allocation of resources to maximize the benefits, namely the ratio between benefits (positive consequences) and social costs (resources costs) plus the negative effects. Migrants bring important economic and cultural benefits. Newcomers migrants are a success to the labour market, for the professions unsolicited by locals, enjoy positive relationships with other residents along with the support of the social network established at destination even before migrating. But there is substantial evidence that there are many disadvantages to all key clues of integration: legal rights, education, employment, criminal justice, health, living conditions, and civic participation. Moreover, if some of the second generation migrants benefit from integration based on "marriage" index, others miss integration based on indices such as "high unemployment rate".

The current economic development policy focuses on attracting more skilled migrants. Migrants highly qualified specialists in certain areas by their rich knowledge and skills are relatively fewer in number of all migrants, are therefore regarded as factors of economic development in areas that are set to work or study.

The increase in remittances sent by migrants to their countries of origin contributes to the development of their country and this aspect has greatly attracted the attention of researchers and policy makers (Ratha, 2003, pp. 157-175). The remittances sent by migrants are a factor of development for the regions of origin



aiming at reducing poverty. Remittances contribute to the improvement of the means of living, and they certainly appear to be safety belt for relatively poor areas.

2.2. Migration - factor of regional development

The current economic development policy focuses on attracting more talented/ highly skilled / creative migrants. According to specialists in the field, the most "selective" migration flows between regions are those that occur according to age and / or skill level (Pike, Rodriguez-Pose and Tomaney, 2011). Regional development is primarily driven by changes in the hierarchy of capital investment in order to change the balance between labour migration and resources transfer. Regional development is mainly driven by qualitative factors, which consist of working with sectoral groups and qualified staff measured by the skills and talents in key business areas.

Therefore the attraction of talented migrants has become a central topic of immigration policies. It calls for a new balance of the contrasts between regions, contrasts that can be perpetuated or extended by migratory flows between different regions of the human capital.

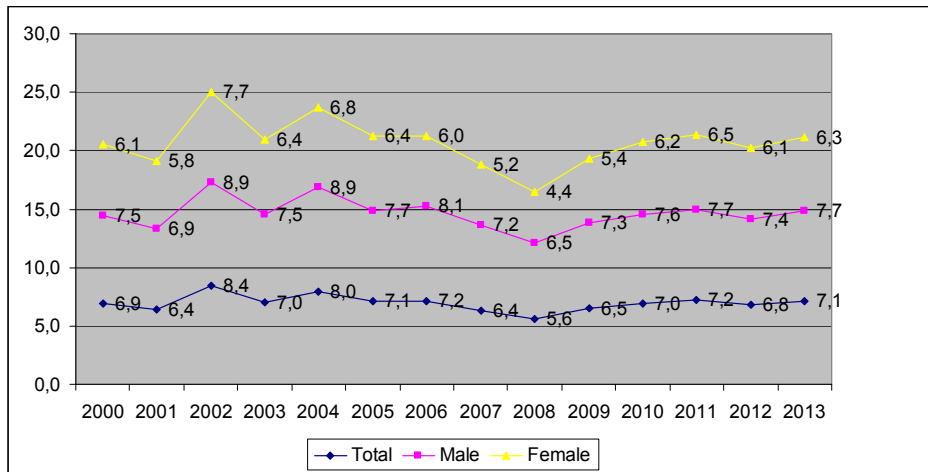
The key factors of the region are: labour market with job offers including immigrants; the attractiveness of the regions concerned (climatological conditions, net migration etc). For example, young people are attracted by metropolitan regions while many adult immigrants are attracted by regions with immigrants of the same nationality with them. So, the attributes of a region affects the attractiveness of potential immigrants. There are large differences between regions and countries regarding migration rate. Migration flows occur from underdeveloped regions towards developed regions which provide financial opportunities above those of the country of origin. But this is a mandatory exchange as studies have shown that any country or region becomes at one time both immigration and emigration area.

International migration has numerous regional effects, which shows the lack of interest in regional development concerns. The analyses which highlight the similarities and differences between migration flow models (emigration and immigration) in a region are interesting. The groups of migrants are different depending on their impact on economic development of the destination region, on skill level. Most studies talk about the impact of migration on development in the region of origin, and less about the impact on the economic development of the adoption area. The data on outflows of money from migrant-receiving regions are quite limited, and even more reduced about the impact on the economic development of countries that claim today an overpopulation of their regions with immigrants. This aspect shows the (multi-) national interest in matters of migration policy. The interest in most countries is not related to the achievement of regional development concerns.

One of the measures of Romania for economic development is the allocation of qualified human resources and material and financial resources needed to ensure that young people will stay "home" and will not emigrate. Given that Romania has

a relatively high rate of unemployment among migrant population it is hard to predict how it will manage to achieve this major objective for the country (see Figure 2). If applied this measure would contribute to further economic development in line with the developments at European level.

Figure 2. Unemployment rate in Romania, overall and by gender, between 2000-2013 (%)



Source: According to INS, <http://www.insse.ro>

Note: Data for the period 2004-2013 were recalculated based on the resident population re-estimated in terms of comparability with the results of the Population and Housing Census of 2011.

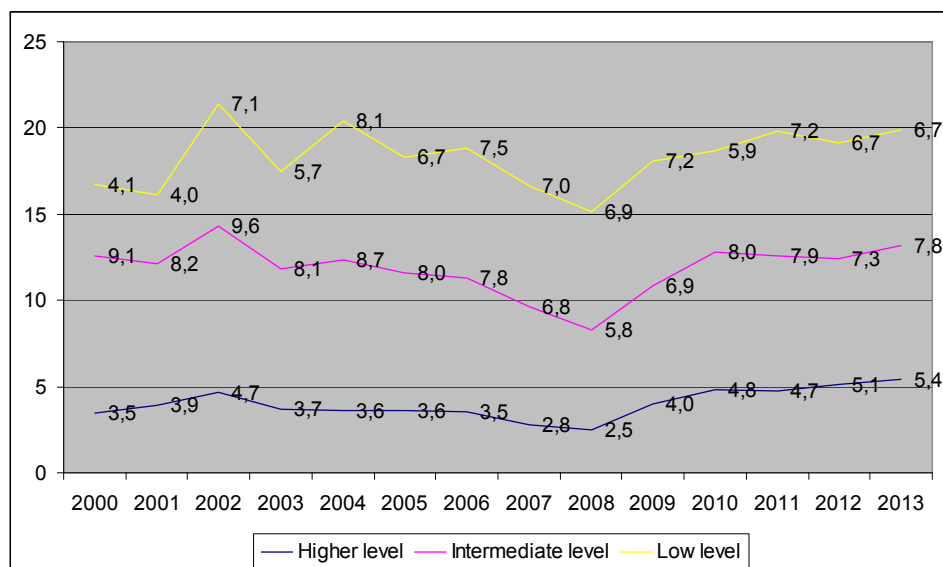
From Figure 2 we can observe a growing unemployment rate in Romania once the economic crisis occurred in 2008 and until today, among both men and women. Yet, female unemployment is higher, which explains the feminisation tendency Romanian migration in recent years. Romania has an unemployment rate of only 7% for a population of 20 million people, of whom 6 million are working with or without legal documents, while in Spain unemployment is 26%, given that almost a third of the Spain population (14 of 46 million people) has the status of an employee. In Poland, where 31% of the stable population works, unemployment is above 10%, while in Italy, which has a lower rate of employed population, of 28% of the total population, unemployment exceeds 12%, according to data centralized by BBC in 2013 based on information published by Eurostat (Mihai, 2014). How could one explain the low unemployment in Romania, comprising only 700,000 people in the context in which 2.6 million people of working age are neither unemployed nor employed? One answer is that the much higher employment in other countries also shows that in Romania public institutions designed to combat tax evasion in the labour market do not work.

A big problem exists among the youth in case of which the highest unemployment rate is found among young people aged between 18 and 25 who have finished school and want to get hired. Motivation is the same, the



employment of young people is a high tax burden for employers, and they are run in economics and statistics because they do not have contracts of employment, they do not receive an unemployment indemnity and are no longer in school records (see Figure 3). In these circumstances we can explain this second trend of Romanian migration (after migration of women), namely, namely youth migration.

Figure 3. Unemployment rate in Romania according to the level of education between 2000 and 2013 (%)

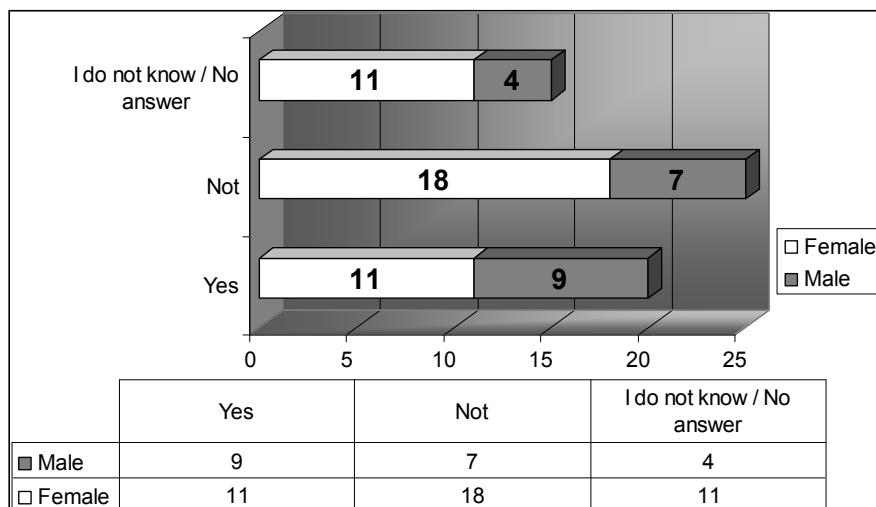


Source: According to NIS, <http://www.insse.ro>

Note: Data for the period 2004-2013 were recalculated based on the resident population re-estimated in terms of comparability with the results of the Population and Housing Census of 2011.

Contradictory or not, migration in Romania remains a negative process on social development through the so-called brain drain. The return home, in a country that does not offer too many opportunities for the youth, of those who have recently left or long ago, is a dream. Those who have left, though it is difficult for them to live at destination, since the economic crisis affected all countries, are not willing to return. In a study conducted in 2010² by Romanian young people who left to study in Italy showed that they are willing to seek ways to survive, and if Italy becomes unattractive, they will not return home but head for other economically attractive countries such as Germany, UK and partly the Scandinavian countries (see Figure 4). Thus the return of youth in Romania is significantly extended.

² The study is part of the thesis *Religie si migratie in Romania contemporana. Studiu de caz: Romanii din Italia* (Religion and migration in contemporary Romania. Case Study: Romanians in Italy), conducted on a sample of 150 people.

Figure 4. Want to return to Romania after graduation?

Source: Feraru, 2011a.

Note: Figures show the total number of people participating in the research.

Regarding this study performed 2010 with young Romanian students who went to study in Italy, 42% of those who said that they did not want to return home after they complete their studies in Italy have motivated their action thus: "Because I have been living here for 11 years ... In addition I have more work and personal affirmation opportunities. Also, I got used to the lifestyle here. My relationship with those in the country are a little weak, I see nothing that could attract me"; "Because of the way in which it is governed."; "Lack of employment opportunities and the level of remuneration corresponding to training." "Education system in Italy is much better than the one in Romania"; "I like the quality of life here more."; "It is a step backward in terms of employment"; "the living conditions offered"; "The economic situation of the country and limited prospects on the labour market"; "Because I feel very integrated in all respects ... and because it gives you plenty of opportunities."; "For me, the return home would be a regression from a multitude of reasons that can be reduced to a low level of the quality of life." "The instability and decay of Romanian education system"; "Romania does not offer opportunities to young people on the labour market and not only."; "Romania is a too corrupt country".

Also by asking the research subjects where they would succeed in terms of profession and on the labour market after their training at a university outside the country, most (35 %) replied "anywhere", 26.7 % answered "in any country apart from Romania" and 21.7% of them said "Italy".

Turning to the impact of migration on regional development we find an urban overpopulation due to the migration to more developed urban areas. This remained true even when there has not been a convergence in Europe regarding the level of prosperity: migrant flows do not focus on areas of economic growth but seek regions offering employment opportunities.



Mike Coombes is one of the authors who studies migration phenomenon along with regional development in England and bring a series of results with an impact on immigration policies (Coombes, 2010). He writes about migration between regions, about migration flows and how they influence regional development, about the migration factors that influence these flows, namely the "anti -urban" conduct of immigrants in Great Britain. Coombes identified among the factors that attract or repel (push -pull) migrants, migrants' tend to work outside the cities. Being overcrowded urban areas became a rejection factor for migrants seeking clean, airy areas, with a reduced crime rate.

Hein de Haas writes about the growing trend of the last few decades of migrant remittances from Europe to Morocco. The receipt of remittances in the amount of \$ 30 million, according to official figures in 2003, turned Morocco into the fourth developing largest receiver of remittances (De Haas, 2005 p.3). De Haas says that in 2001, remittances were six times higher than the official development aid, five times higher than foreign direct investment and exceeded tourism revenues the export of agricultural products and phosphates. Thus, economic and political environment coupled with the new migration policies explains why some countries benefited from economic growth as a result of remittances orientation through official channels.

3. Social integration of migrants - indicator for development

Nowadays, people talk increasingly about cooperation, social cohesion. In the analysis of the phenomenon of international migration we talk about the crowds, we refer directly to those heterogeneous, anonymous crowds, for example the crowd in the street, and to those homogeneous classes of workers. A nation is deemed that pronounces its worth by the way in which its ethnic characteristics are particularized. The sociological analysis to which we will make reference, studies the individual migrant in the community context and the social space organized by it (Romanian community abroad) as well as the society of origin and that of destination.

Beyond the issues concerning the Romanian and Italian collective mentality which are the subject of the research "Romanians in Turin between integration, disintegration and reintegration" we have tried an involvement in the European reconstruction of the two member states of the European Union. The focus was placed on the elements that are relevant in relation to the social and cultural environment. According to the explanatory-epistemic report the social process called adaptation has the following hierarchy based on the complexity criterion: tolerance, compromise, amalgamation (or a mixture of different meanings). Many authors consider adaptation relating to the concept of assimilation, while other authors believe that when we speak of migrants we use one of the two terms either adaptation or assimilation. Therefore, adaptation is integration expressed by the ability of the immigrant to play certain roles and perform certain tasks in the destination country without perceiving them like forms of coercion or frustration.

From the data of the study conducted in 2010 on Romanian migrants in Italy, the overall trend of stable residence in Italy has resulted. This result could mark a

trend of reversal in the "traditional" behaviour of Romanian migration that was originally registered in the temporary model of migration. Today we are witnessing a migration process that despite everyone wants it to be a short one, it is often extended gradually until a trend of permanent settlement at destination. The increasing trend towards a more stable integration in Italy is revealed by certain characteristics and dynamics specific to the Romanian community in Italy, such as: the increase in the number of residents which is determined by the extension of the stay of those present in Italy before 2002, the relatively high birth rate after arriving in Italy, the increase of the minors' rate in the number of residents, the marriage rate of Romanian women is higher than the average of foreign women in Italy and the fact that mixed marriages occur where one spouse is of Italian origin (about 75% in 2006). The topic related to the Romanian immigrants integration at destination, occupied an important place in the research conducted in 2010. Thus the perception of Romanian immigrants on the concept of integration and with the possible ways to facilitate and improve the integration of Romanians in Italy was presented. So, we are talking about the perception of Romanian immigrants in Italy that leave the integration factor in the care of the Italian society motivating aspects like: "Their interest is to integrate us. The Italian has an interest in integrating the immigrant because an integrated person is a person who tries to obey the laws and the lifestyle of the country" (I.G., male, 33 years is a nurse at Rivoli Hospital in Rivoli, for 5 years in Italy) (Feraru, 2011b, pp. 128-134).

The adaptation, assimilation and participation can be identified simultaneously or sequentially in the process of integration of immigrants at the destination country. These are three forms of the evolution of migrants from a particular social and professional status to another status corresponding to the country of destination usually far below that of the country of origin.

The level of integration groups immigrants into several categories. Thus, we have immigrants who go through one of the two forms or levels of integration (adaptation or assimilation). Another category is that of immigrants who participate and are accepted to participate in activities specific to the place of destination, becoming integrated as a result of mutual action between them and the country of destination. There is also the category of immigrants who reach a high level of integration in a particular sector of social life (at work, in the family, society, community or group of belongingness at the destination) and at the same time a poor integration level in another sector.

The degree of assimilation is reflected in the degree of participation of the immigrant in the activities of the community or group to which he/she belongs at destination on the one hand, and the degree of participation (non - participation) in the activities of the community or group to which he/she belongs at home, on the other hand. For example, the survey data from 2010 showed that men fall into the type of immigrant integrated into two forms of culture and feel equally well in both cultures where applicable, while women change their cultural behaviour entirely according to the rules and value of the receiving environment. Women reach the level of integration where they only go through one of two forms of integration (adaptation or assimilation). Women assimilate more of the culture of the receiving society.



These immigrants according to a way of existence closed in groups of same belongingness (ethnic, religious, social) from the same country or community of origin, try to preserve in the country of destination elements (norms, values, traditions) of the place of origin. The intensity of the relations with the place of origin and with immigrants from the same country of origin hinders the formation and development of other relations at destination. These immigrants remain partially or totally foreign to other important sectors of everyday existence.

The research in the field shows that along with the (re)assessment and re (positioning) of cultural relations from the perspective of transnational migration new levels of income are reached and the contact with the "other" take place. We speak of a European "Other" European that has new needs and new ways of meeting them. The changes which occur take place through direct contact but also by means of the group of belongingness. In case of Italy, we see from the data obtained that the cultural shock is quite small, easily adopted by Romanian immigrants.

The general condition for a successful integration is related, for most migrant, to issues concerning the rights and obligations which must be the same with those of the locals. In conclusion, proposals to improve the integration of immigrants in the regions of adoption should include actions and measures that address both communities, immigrants and locals. In other words, the social integration of migrants at destination cannot be done without the support and acceptance of immigrants by the local community. The relations of immigrants with the receiving environment are important in the integration of migrants. Thus, the integration process is the main element in the analysis of the stages of the migration process, and also the process of integration concerns all aspects of life in a society, and includes migrants and host societies. Migration patterns produce increasingly diverse cultural influences in the societies of destination.

As we have seen from the data of studies previously performed regarding social integration of immigrants, there are several approaches to integration. In this respect there is a best practices guide as this guide would not be relevant for all migrants. Approaches to the integration of migrants should leave from the establishment of clear objectives that can be positioned on a continuum ranging from case to case, from country to country (common values and cultural practices) to aspects of diversity (different values and practices).

Integration policies and programs are urgently needed in case of various increasingly diverse societies in order to ensure their survival and prosperity including by means of measures that adopt diversity while maintaining unity.

Conclusions

Integration of migration carried by means of migration policies may actually represent a factor of economic and regional development in Europe. The conditions for the successful achievement of integration of migration are favourable due to the selectivity of migration. An effective EU strategy must go beyond providing legal minimum common standards and the exchange of information when using its unique levers to promote integration. Those measures that promote a common



understanding between the Member States of the barriers in the way of integration are required. The measures taken shall be effective only if they solve the problems of migrants both within and outside the labour market through data collection, research and monitoring initiatives, and dissemination.

The review of existing measures on immigration is required today to ensure that they provide migrants a secure legal status, the rights and responsibilities that reflect their temporary or permanent status and maximum access to the rights that promote integration at destination, including employment and family reunification.

Equally necessary are the programs that directly involve migrants. This can be achieved first by establishing a mechanism for dialogue and coordination between Member States and between them and the European Commission in order to develop the exchange of best practices on key elements of an integration strategy.

In conclusion, promoting migration as an important factor for the countries of origin and destination, we should primarily take advantage of opportunities and address challenges related to international migration, in particular, regarding the changes caused by increased urbanization and migration to cities. Migration involves the government nowadays through the application of direct measures of bilateral and regional cooperation. The European Union could stimulate international and regional migration of labour through policies and practices on migration and development. But in this regard the priorities, the new priorities and the impact on the development of migration must be known. All these approaches can be achieved with success only if the European Commission does not increase support for initiatives on migration and development, including by assisting EU partner countries to promote migration governance.

The data presented here shows that there are several approaches to integration. The concept of integration to which reference was made herein reflects the policy of approaches developed in traditional countries of immigration. Integration policies are an essential part of a comprehensive system for managing migration. They should be designed to allow immigrants to achieve their personal, economic and social potential, to remove any trace of marginalization.

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FOREIGN POLICY ON THE SLOPES OF CAUCASUS

Attila IAKOB*, Claudia DARABAN**

Abstract: *The past years showed to the world and to the European Union that classical approaches are not enough to be a power breaker in the Caucasian region, where the overlap of history, myth, and cultures creates a unique geopolitical context marked by century old grudges and imaginary or real socio-economical issues. It is clear that concepts like “ring of friends” or Eastern Partnership need a rebranding and an upgrade due to contemporary context changes. Russian expansion, Turkish political shifts, Ukrainian crisis, Iranian ambitions, Kurd issues, energy policies and socio-economical convulsions are defining the new shape of the geographical areas on both side of the Caucasus Mountain. In this context the European leadership needs to rethink the foreign policy approach to the region and to create a new set of actions in this context. This difficult task is needed not only from the perspective of Europe’s energetic security but from the point of regional stability, because Europe and its global development depend on its involvement in the neighboring regions. From this perspective our paper would like to analyze and create a realistic image on the dynamic of the relations of EU with the countries in this region and the perspectives in the contemporary context where the overlapping geopolitical interests are making this region a key one for several future issues.*

Keywords: Wider Black Sea Region; geopolitics; EU foreign policy; Caucasian region, Ukraine

Introduction

After few years of geopolitical uncertainty and political reshape of the region, it seems that the Black Sea and its wider surrounding have managed to enter in the new geopolitical game of the 21st century, where old ambitions and new challenges brought back the *old sea* in the complex equation of contemporary international relations. We can say that the Black Sea and its strategic importance is bigger than ever, more important than it was at the times of ancient Greek metropolises or Roman Empire dominated Europe. From a *sea of trade* and *trade routes* it became a sea of strategic position and energetic transit point shaped by the

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needs and demands of contemporary developed societies. Nevertheless, the Black Sea maintained its cultural and social importance too in the frame of Euro-Asian communication and transit routes as a cultural bridge between *several worlds*. From this perspective the duality of roles in the regional history made its existence so important and difficult to manage by the bordering countries and powers. In this complex historical and geopolitical frame, the Black Sea managed to become the space of several geopolitical overlap of ambitions and political clashes over control and management of power in the region. The Caucasian Region became integrated in the foreign policy agenda of the major power brokers in the context of energetic policies related to the Wider Black Sea Region.

After 2007, accession year of Romania and Bulgaria in the European Union, the Wider Black Sea became more important for the continental union not only from the point of view of a border territory but from the point of view of European Security and Neighborhood Policy, where the energetic security component became dominant after Ukraine's actions (2006 and 2009). This rough attempt to use the energy (gas) as political pressure instrument created a dangerous situation for the European Union, and put in place new plans and mechanism for regional policies and revived the geopolitical game in the region. On the other hand, the rise of Vladimir Putin as the new leader of the Russian Federation (2000) and the drafting of the *Putin Plan/Doctrine* was the first step in the medication of an *old wound* and the starting point for creating a remedy for the "greatest geopolitical disaster of the 20th century", the dissolution of the Soviet Union. The new direction dictated by the Kremlin is structured on the basis of a regional economical union between former soviet republics, which core mechanism and power base would be the energy policy and the economic growth based on the *petrodollar philosophy*.¹

This new equation of regional power struggle between the west and the east and the two entities (European Union and Russian Federation) must consider and adapt their strategies to other actors of second rank or international non regional players whose presence and interests are more or less important in the geopolitical structure of the Black Sea region and its wider area. For the first instance Turkey and its geopolitical importance cannot and must not be underestimated or ignored, because its presence in the regional power game is not only the key for several geopolitical problems but it represents solutions for current issues of the international community. On the other hand, Turkey and its almost 80 million inhabitants (Muslim or not) represented an important economical and demographic factor in the region from the early centuries of the Ottoman Empire to contemporary period of cold war and post cold war decades when Ankara became the new ally of its old enemy. The *natural bound*² between Turkey and Europe is more real than it seems at the first instance and represents the key for several future

¹ Ibrahim Oweiss's term used for OPEC countries, it can be used in this situation to, regardless of multiple currencies. The only difference may be that in the case of Russia this policy it can be a successful one.

² One example of this geographical and symbolist bound could be the city of Tarsus, former capital of Roman Cilicia province (Turkey) birthplace of Saint Paul the apostle, and the meeting place of Marc Anthony and Cleopatra during the campaign against Julius Cesar.

European projects in the region, but the religious and social differences may cloud the judgment regarding this common future in the eyes of several political leaders. It is possible that Turkey may never be accepted as full member of the European Union, but the necessity of a clear strategic treaty is in the best interest of both sides that are competing in the wider Black Sea geopolitical game.

The situation of Ukraine, former soviet republic and main responsible for the 2006-2009 European gas crises, is uncertain from several points of view. Its pro European regime was replaced by a more moderate and pro Russian leadership which managed to promote a new *Modus Vivendi* with the Kremlin, creating disarray among the European nations. The European Foreign and Security Policy was put on full alert and the search for options in the energy supply field managed to define the new agenda of the Union, at least for the next 10 years. On the other hand, Kiev's foreign policy shift was not a total surprise, and the *détente* with Russia was predictable and a possible European integration represented an option for only half of the country and for a minority of the politicians. Ukraine's effort to collaborate with the European Union in the light of a possible integration was only a temporary path for Kiev, which was blocked by the rebirth of Russian geopolitical ambitions and the EU last enlargements fiasco.

At the moment of Vilnius summit in November 2013, the gap between the EU and pro-Russian regime of Ukraine became clear and visible for all the international community. The carrot offered by Moscow to Kiev was not only tempting from energetic and international security, it was an answer for the EU's attempt to fulfill its aim of ring of friends and influence in the former *soviet empire*. It was clear that not all the Ukrainians filed the same way toward the western political order, mainly because of the close relations with Moscow and its opposition was more dangerous than anything in the public's eye. Pro-Europe or anti-Europe here or there we must acknowledge the fact that Ukraine and its people are more close to the Russian Federation idea of regional development and internal political order than to the European political order promoted by the Union.

Despite old historical grudges and mass murders in the last century interwar decades the soviet regime managed to split the country on ethnic bases more than we believe or want to believe. It is clear for the eye whom wants to see that Moscow will not want, and Kiev will not be able, to broke this vicious tie in the current territorial formula and with the maintaining the territorial status quo of the region. By now it is clear that the Russian Federation is ready to play a dangerous game in the region, based on the old principle promoted from the early years of the Russian Empire that *might is right*. The 2014 spring events in Kiev and the Russian intervention in Crimea was not only a grave interference in internal politics of a struggling country, but represented a dangerous precedent for the international juridical regime. By ignoring the 1994 Budapest treaty and international conventions, Moscow managed to create not only a hazardous situation in the region but opened a dangerous door for the future of international system and created a precedent for the separatist Transnistrian region of the Republic of Moldova.



In this light the Ukrainian factor of the Black Sea geopolitical equation must be followed from the perspective of Russian actions and its foreign policy plans, nevertheless it is clear now that President Putin is using its momentum to achieve what President Yeltsin lost in the previous years: greater power status (with small economical output, mainly based on energy export), regional control over former soviet republic and a place at the table of global decisions. On the other hand it is not clear that this Khrushchev type of *shoe diplomacy* will work for the contemporary world, where the interdependence of many dimension of daily life is not susceptible to instability.

In the light of 2014 spring events, the future of the Caucasian region become more interesting than it was in the last 20 years. After the Five day War of 2008 and the aggression over Georgian territories, the stability of the region was put under pressure Tbilisi became a target of Russian intervention based on claims over separatist regions of Ossetia and Abkhazia, and managed to escape from a full scaled occupation thanks to Moscow's good will and mercy.

On the other hand, the other two Caucasian republics - Armenia and Azerbaijan- are creating for themselves a dangerous situation not only from the perspective of the Nagorno-Karabakh region but from the point of view of future development which is strictly related to their loyalty to Moscow, nevertheless this relation isolate them in the eye of their neighbors and western countries. For these republics the luxury of independence from Russia is not an option but the way that their approach the collaboration with Moscow represents the key of their survival and welfare in the coming decades.

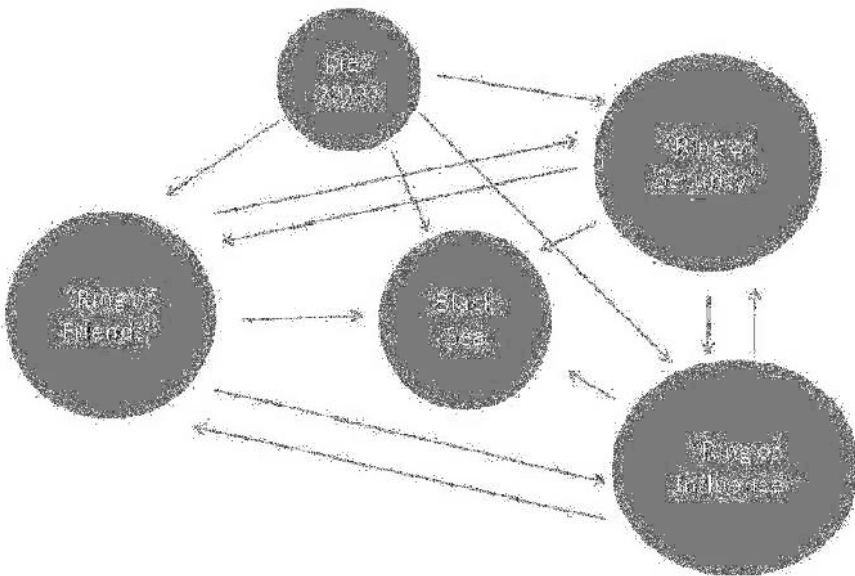
1. Geopolitical overlap and clash: “the War of Rings”

By 2012 the Black Sea and the Caucasian Region re-entered in the Eurasian geopolitical game, the old *heartland* where the major actors- Russian Federation, European Union, Turkey, United States and NATO- became a vital point not only from military perspective but from economical and energetic too. It is not clear that the current contexts is shaped by the military needs or by economic needs or both of them at the same time, or the major actors are seeing the importance of the Black Sea in the same way. In this geopolitical convergence the international player's ambitions and projects for the region created a multi –polar overlap and sometimes a clash at geopolitical level. This type of overlap and clash was never so intense in the region, where generally one power (“Greece” and Roman Empire in the antiquity, Byzantine empire and the Soviet Union in modern times) or maximum two powers (Russian and Ottoman empire) played the geopolitical game with full speed and capacity with the aid of extra regional states (United Kingdom, France, Kingdom of Sardinia etc).

Today the Russian Federation's *ring of security*, European Union's *ring of friends*, Turkey's *ring of influence* and Ukraine's uncertain position are shaping the new geopolitical map of the region where the external actors like the United States, Egypt, and NATO are involved at several levels and interest domains.

In the eye of the Russian Federation, the Black Sea and Caucasian Regions are vital borderland of the former empire and current federation, which under the Putin Doctrine must be an active part of the consolidation and reconstruction of the former soviet state under and around Russia. In this context, the steps of Kremlin can be understood more clearly and the aggressiveness of the undertaken actions represents most likely a soft reaction to the current situations in the Wider Black Sea than a classical Russian hard power show off.

Figure 1. “War of Rings”



Source: own representation

The short and targeted Georgian intervention (war) in 2008 in support of Abkhazia and South Ossetia³ independence movement was in the light of the current doctrine a two direction message to the region and to the international community, and sent out a signal regarding Moscow's intentions over the Black Sea-Caspian region. On the other hand the reconstruction of former influence sphere (*ring of security* in the context of historic evolution of the Russian state) and the creation of a buffer zone between the center and neighborhoods are old politics of tsars and Russian leaders, and the curse of the Russian security policy over centuries. In this frame of action the Caucasian states are representing a strategic point for the Kremlin's foreign policy vision.

³ The action was considered as a provocation by many of the countries and the independence is recognized still by a small number of states: Russia (de facto), Nicaragua, Venezuela, Nauru, Vanuatu, Tuvalu, and other rough entities like Transnistria and Nagorno-Karabakh.



The Russian insecurity issue can be understood and in some way legitimate, because we must not forget that today the Russian Federation is practically surrounded by strong competitors like: China (nuclear power) in the east; India, Pakistan (both nuclear powers), Turkey and Iran from the south; European Union from the west and there is the two US strongpoint in Afghanistan and Iraq which cause real threats to Russian security ring. Alexandr Dugin's (*The Principles of Geopolitics. The Geopolitical Future of Russia* 1997) or Genady Zugarov's (*Beyond the Horizon*, 1995 and *The Geography of Victory*) radical views are not so radical today and their influence over geopolitical thinking in Russia are signals not only for further development in the strategy of Moscow, but they represent a guaranty that the "convergence" with China, theorized by Brzezinski is far from reality.

In the light of the geopolitical development in the region, the Russian fear and need for control over the Wider Black Sea is understandable but not necessary acceptable or fair from other point of view. By securing the transit right and controlling the natural resources in the region, Russia puts all his hope for development and power reconstruction in the basket of the energy security and supply of peripheral regions with these resources, neglecting again the use of public diplomacy's power in the region of the Black Sea. On the other hand, the lack of imagination (use of modern diplomatic instruments) in the implementation and pacification of Russian foreign policy creates a *déjà vu* in the eye of the European countries and Black Sea region states. The South stream project and the effort to exclude Eastern European countries from the pipeline route raise suspicions not only in the rank of former communist states and in the mind of European leaders. These actions also implemented the idea of a new type of approach to Moscow and to the security policy of the European Union at several high level meetings. By all means the attempt to divide the European Union during the 2006 and 2008 gas crisis was at the time a brilliant move of the Russian foreign policy, but for the middle and long term it created a backlash which damaged the relations and trust between Moscow and other western capitals. Like the 1999 Pristine airport *incident*⁴, where the action meant to be a show of force and statement of power in the region and in the eye of the international community but the effect was the same, wakening of distrust and insecurity toward Russian foreign policy and its intentions.

These actions made clear that the Russia Federation can be considered a strategic partner up to a certain level, and that the building of North stream pipeline does not represent guaranties of any kind. For this reason the Black Sea region as alternative resource route was raised as the first point in the new European energetic policy direction, in the detriment of Russian solution. The South Stream project may be over evaluated from the standing point of available resources but its security is more stable than in case of South Stream project, where the route may be secure but the source can be considered uncertain. The general argument of demand and offer relation may not be applied in the case of Moscow, because there

⁴ On the night of June 12, 1999, Russian paratrooper forces occupied the airport creating a brief stand of situation between NATO and Moscow.

is no guarantee that Russia at a certain point in the future will not use or threaten to use the card of energy in the relation with the European Union.

In opposition with the Russian Federation, the European Union consolidated its position and power on the stage of the international relations by using smart development and economical instrument to create its base of power. The European integration and expansion reached its highpoint in 2007 and with the accession of Romania and Bulgaria ended almost a half of century of struggle for unity under one banner and political structure. But the European Union - as other states - neglected for a long time the Black Sea region and the eastern border of the future union of 27, and developed policies and plans for middle or long terms, taking out of geopolitical context the Russian Federation and its possible *rebirth*. The idea of shielding European borders with a *ring of friends* is probably the most comprehensive instrument of security, but the recent development managed to undermine this effort and move Ukraine –and probably the Moldova Republic in the future – out of Europe’s reach and out from the reach of the instruments promoted by the European Neighborhood Policy. This mistake is explicable by the fact that the EU has focused only around the German view of *Ostpolitik*, never taking in consideration the fact that one day the borders of the union will reach their limits and in that situation a new *entrenchment* politics would be needed for the consolidation of the expanded union.

On the other hand, the fast development of Russian internal affairs (the almost melodramatic change of power between Boris Yeltsin and Vladimir Putin) or that the speedy recovery under Putin’s rule would affect the equation of geopolitical balance or imbalance in the Black Sea region was practically impossible to predict at the beginning of the 21th century. By losing the political battle in the east the European Union primary direction and main geopolitical game shifted into the region of the Black Sea, where the convergence of energy policies and military issues created a high ball situation for the Union and for its closest ally, the USA. Who wishes to influence the *wider Black Sea* region became a target under the Bush administration and in the context of the “war on terrorism” when a secure corridor between Europe and war theaters can be achieved more easily.

On the other hand, the control of the Black Sea region represents the key for the European energy supply, which can guarantee not only the independence from Russian resources but from possible energetic blackmail too. This transit corridor would connect not only the Caspian states to Europe, but it will offer a secure transit route from suppliers like Iraq and Iran. In this context the *Nabucco “idea”* (as generic project or idea not the actual plan) with minor adjustments can represents the alternative for Europe and a nightmare for Russian Federation who would lose some influence in the energy supplying field. One other question is related to the capacity of supplying the flow of resources through the pipeline: in the light of recent development around the Caspian Sea gas reserve reevaluation and possible supplying quantities showed that this natural gas exploitation was clearly over estimated by both sides.

From this point of view the European energy security plan is not a bulletproof plan but it can offer an acceptable comfort for some periods in the near future. This doesn’t mean that the current European energy policy should not be



reviewed as soon as possible and adapted to new perspectives and to an approach to the African energy resources. From the energy policy standing point, the European Union cannot afford to lose the Black Sea geopolitical battle and cannot disregard the other options if it wants an efficient *ring of friend* strategy for the future.

Between the two northern powers stands Turkey with his constructive attitude and several century old habit of having a *ring of influence* around the Anatolian peninsula. Like a wise effendi he waits and participates with caution at the geopolitical game of the Black Sea and its wider region. Turkey knows that its geostrategic position is valuable not only for the European Union but for the United States and for NATO too, and that the question regarding the new energy corridor doesn't gravitate around the *if* but rather around the *when*. The contemporary history and its events defined the way of political thinking in Turkey, although it lost the majority of territorial conquests of the Ottoman Empire; with its 70 million inhabitants and a well-trained army, it represents today a demographic, cultural and economical power in the region which cannot be disregarded when we talk about the Black Sea and the geopolitics of the region. Pan-Turkism may not be the main pillar of Turkey's political philosophy anymore, but the relation with neighbors is defined at some extent by it in a way that creates a cross-border identity of all Turks from the region and drives several foreign policy decisions in the direction of this idea.

Although Ankara's geopolitical aspiration enters in conflict with Russia, a conflict based on the historic reality and ties between Turkey and several Caucasian states and the presence of several military facilities of the Russian Federation in the proximity of the northern borders of the country. The different views of the Azerbaijan-Armenian problem from the Turkish capital and from Moscow are creating tensions at local level and forces Ankara to play the regional stability card from perspective of minorities. The Caspian Sea pipeline projects and their success depend not only on Turkey's attitude toward the initiative, but on the security of the two Caucasian republics used as transit regions for the pipelines. From our standing point the competition over the Caspian Sea pipeline projects is more a superficial issue on the regional agenda then a real problem for Turkey.

2. Ukraine. The key of regional power games

The great unknown in the geopolitical development of the Black Sea is represented by Ukraine and its dual behavior, one that is searching the path to Europe and the other one wants to return to the old center of power. Recent development in the domestic politics of the country shows that Kiev is turning slowly to the direction of Moscow, adopting a neutral stance toward the European Union and the collaboration with its western neighbors. On the other hand, the internal political fight between pro Europeans and pro Russian factions managed to divide the society and the country in a way that can jeopardize the democratic structure of the country. This dual behavior is defined by the country geographical position and mainly by the new direction adopted by former President Viktor Yanukovich who maintained the



strategic collaboration with NATO but signed a treaty with Russia. Therefore, Kiev received a generous multiyear discounted gas contract in exchange for new lease period (until 2042) of naval bases in the Crimea by the Russian Federation.

Through this, Ukraine assured a clear presence of the federation's navy in the Black Sea, and managed to warm up the relations with Moscow, this deal became void and null in the spring of 2014, when the Russian Federation (in an unprecedented step) managed to occupy the Crimean Peninsula in not more than a week, making a *de facto* permanent military presence in the region. This step of Russia can be analyzed as one normal action in the foreign policy effort to create a ring of security around itself, but in the light of the new aircraft carrier policy of the Russian Navy this step may be regarded as a warning for the Black Sea regions geopolitics. In this context the actions of Kiev are watched with more attention not only by the European Union or NATO, but by other Asian states, which were left speechless by President Putin's quick action and had no reaction or could not react in front of these events. It is clear that the Ukrainian "conflict" in the heartland it's planed to the next step in de redefinition of regional influence and the drawing of border between the two Eurasian powers.

The unclear pillar of the issue is the limit and border which will satisfy Moscow and the new Russian geopolitical plan, because in case of other aggression like the Crimea peninsula annexation the danger of another *Munich phenomenon* will represent a permanent danger in the region and at the border of the Russian Federation. Putting aside the legitimacy or illegitimacy of the Ukrainian opposition's action from the fall of 2013 to the spring of 2014 and the lobby around Julia Timoshenko case, the government needs to stabilize itself and create a strong political structure in Kiev which commitment toward a neutral stance between the east and west would be a short term solution for the crisis.

On the long term, the issue of Ukraine and the Black Sea region lies in the hand of the western chancelleries and in their reaction toward Russian attempts of expansion in the border region of Europe. The idea of ring of friend or ring of security are overlapping each other and it may be impossible for Ukraine to maintain a straight stance toward one of the actors involved, whitout a risk of upsetting the other. But in this equation the real danger is represented by the Russian Federation and its aggressive politics based on the use of armed forces to achieve their foreign policy targets. On the other hand, the critics of the EU could say that Moscow is using the same methods that European states used during the *Arab Spring* when they planed the interventions in North African countries. Maybe the two situations can be compared but it is clear that the EU is more reticent to use the hard power than the Russian Federation, especially in the area targeted by the politics of the *ring of friends*. In this case Moscow's attitude toward its border territories is more like based on the principle of direct domination and no need for negotiation whit opponents. Stalin is dead but his spirit and political domination based on ethnical factors is more present in the Russian political agenda then it was in the last 20 years.

On the other hand it is not clear what will happens with Ukraine if Russia decide to take over the eastern regions, as it was declared by several politicians, non-official channels and mass media. In any case, the Kremlin is taking a big risk at



moral level (legal morality was never an issue for Moscow), because this type of action could have a backlash in the future when territorial guaranties would be vouched by Russia but distrusted by other states. In many dimensions this issue is like the *poison apple of Snow White*, it's wrapped in a tempting package but visible only for the eyes that can or want to see. Many nationalist movements and populist leaders over the Eurasian continent may see in this movement an opportunity to achieve their agendas and to pursue the ideal of independence from states, without thinking of the consequences.

Vladimir Zhirinovskiy suggested in the last weeks that dismantling of Ukraine by giving its territory to several nearby states that had in the past some territorial claims would be an ideal solution for the problem. Yes, Zhirinovskiy may not be one of the official spokesperson for the Russian foreign policy, but his ideas are in concordance with the line promoted by the Kremlin during the last century (or at least in the post Lenin years). But returning to the real issue of the legitimacy or illegitimacy of the Ukrainian state, it is clear that the Russian Federation will play the card of victimization and illegality outcry to justify his actions and to maintain the illusion of some legality in the eye of the international community and international laws. On the other hand, there is the public opinion (ex. Romanian public opinion) that considers the Putin administration has the right to do his game in the former soviet region and that NATO and its allies are incapables to make something to stop it. The sad truth is that they have right but not from their simple point of view, mostly because they do not understand the complexity of the issue. NATO cannot and will not start a war or take any aggressive steps toward Russia, because this would mean the starting of a new war. The Kremlin is aware of this and forces the hand of western allies. The argument that the Budapest memorandum is null and void due to the lack of power of former president Yeltsin is based on a false argument, because in 2014 the Tuzla island settlement act signed by the more powerful president Putin was declared null and void to.

This breach of international agreement is more dangerous than ever, and opens the way for an aggressive Russian retaking of former soviet territories and maybe an aggressive building of the Russian Federation idea about the new Eurasian union. This course of action in its roots has nothing dangerous only their breaking ground principles may put up a dangerous situation in the future. Russian imagined economic area cannot be a real match to the European Union and for the United States, because it's main base is the energy policy and the petrodollar politics. Let's assume for a moment that the economic area is created and is fully functional (which in some measure is true at this moment): there is no guarantee that this structure will respect in the future the agreements and treaties signed by its main member or that the Russian Federation will not use the energy blackmail to achieve its targets. From this point of view, the situation in Ukraine may decide the fate of further international policies on the Eurasian continent and it may draw the new border between the west and east.

President Putin is playing his card very aggressively at this moment, because in the long run this could be his country's only choice and he knows that a lost game will affect not only his internal power base but the external prestige too. In this equation, the



role of China or more likely his absence in the great question make interesting the whole Ukrainian crisis. This should not be a surprise to us, because the Chinese foreign policy is marked by a more pragmatic and cynic policy line than in the case of other great powers. The game of Eurasian mammoths is not his concern yet and he is waiting to see the development of Ukraine status and in case of unfavorable outcome to protect and preserve the foreign policy line adopted in the last decade. Moreover the Chinese-Russian energy related ties guides Beijing toward a more neutral stance from several objective reasons and from because China has no clear alternatives as have the European Union or the USA.

Conclusions

It is clear for now that the Black Sea and its wider region have entered in the new geopolitics game of the 21th century and that Mackinder's *heartland* theory did not lose its actuality from the modern geopolitical point. But the reshaping of contemporary needs and issues shifted the essence from the classic view to a new set of rules, where the energy policies took the place of the classical military centered visions, and possible geopolitical framework in the region must be based on the mutual agreement about boundaries and influence spheres. Under the Lisbon treaty the EU has the opportunity to promote its aims in a way that was never at its disposal, where the *legal entity status* of the union with the *President* and *High Representative* can create a real common foreign policy which can shift the balance of power in the Black Sea region in its favor. On the other hand, Putin's Russia had made clear steps to rebuild the former soviet states influence not only in the region but in the world too, for this reason the Black Sea region is considered a strategic one from several point of view.

A geopolitical victory can be used as a launch pad for further actions at border regions and it can be a strong diplomatic advantage in any further negotiation with the EU or Turkey. For this reason, the overlap of geopolitical visions must create equilibrium between Russia and Brussels, a satisfied Europe with a secure corridor and an untarnished Russian reputation can be the key for the stability of the regional and the basis of a much needed strategic collaboration between the two powers. In this puzzle the role of Turkey is mostly clear, only the how represents an issue, whether with or without EU membership Ankara must be involved in the regional decisions as a strategic official partner of the union. From this position Turkey can be used as a bridge to the Middle East or be a contact region between several cultural territories and it can be a first player in the construction of southern component of Europe's ring of friend around the Mediterranean Sea.

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IS CAPM AN EFFICIENT MODEL? ADVANCED VERSUS EMERGING MARKETS

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Abstract: *CAPM is one of the financial models most widely used by the investors all over the world for analyzing the correlation between risk and return, being considered a milestone in financial literature. However, in recently years it has been criticized for the unrealistic assumptions it is based on and for the fact that the expected returns it forecasts are wrong. The aim of this paper is to test statistically CAPM for a set of shares listed on New York Stock Exchange, Nasdaq, Warsaw Stock Exchange and Bucharest Stock Exchange (developed markets vs. emerging markets) and to compare the expected returns resulted from CAPM with the actually returns. Thereby, we intend to verify whether the model is verified for Central and Eastern Europe capital market, mostly dominated by Poland, and whether the Polish and Romanian stock market index may faithfully be represented as market portfolios. Moreover, we intend to make a comparison between the results for Poland and Romania. After carrying out the analysis, the results confirm that the CAPM is statistically verified for all three capital markets, but it fails to correctly forecast the expected returns. This means that the investors can take wrong investments, bringing large loses to them.*

Keywords: CAPM; risk; portfolio return; capital market

Introduction and literature review

For a modern investor the investment decision is based on a detailed study of financial instruments, trying in this way to find the perfect combination between the risk and return in order to build an optimal and efficient portfolio. The major part of the investors think about using as a risk measure the variance or standard deviation of the portfolio return, but this measure is not by far the single one.

If the return-variance analysis of Harry Max Markowitz represented a cornerstone of the financial analysis, bringing him the Nobel Prize for Economics in 1990, the CAPM (Capital Asset Pricing Model) represented an essential step for the analysis of the primary financial instruments, being developed by William Sharpe (1964), Nobel Prize winner in the same year, highlighting the link between

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the risk of a financial instrument and the investor expected return. CAPM is used in practice both by professional investors and people working in the field of corporate finance.

The CAPM has a series of hypotheses, as follows (Hiller *et al.*, 2012, p. 140):

1. All the investors have a Markowitz behavior, considering only the variance and mean return of the portfolios.
2. There are no transaction costs or other spending for buying and selling financial assets (frictionless markets).
3. All the investors have homogenous beliefs, namely they estimate identical distributions for the future returns. There is a perfect competition between the investors and they will not try to beat the market by an active administration of the portfolios.
4. The stock markets are in equilibrium. The financial assets are correctly evaluated.
5. The time horizon of the investments is identical for all investors.

Over the time a series of tests have been employed in order to test the CAPM, and the results both confirmed and rejected its validity. Thus, Jensen *et al.* (1972) proved the CAPM validity on the US stock market for the period between 1931 and 1965. He reported a linear relationship between the risk premium of the portfolios and beta and, for large (small) values of beta, alpha tends to become negative (positive). By developing the work of Black *et al.* (1973) revealed: (i) the existence of a larger value of alpha than the return of risk-free assets; (ii) the fact that there is a linear relationship between the mean returns and beta and (iii) the fact that the linear relationship persists when the time series is very long. Zhang and Wihlborg (2004) have analyzed the monthly prices of 753 companies from 6 European emerging countries: Cyprus, Czech Republic, Greece, Hungary, Russia and Turkey between 1995 and 2002 and identified a positive correlation between beta and returns computed by using CAPM.

In the financial literature CAPM was extensively criticized because of its caveats. Ibbotson and Sinquefeld (1976) revised the initial CAPM formula by excluding the beta and arguing that the returns are better explained by the size of the company and the market to book ratio. Fernandez (2015) considers CAPM an „absurd” model because it is built on unrealistic hypothesis and its predictions are not connected to the real world. Moreover, he separated the expected return and required return by the investors, arguing that CAPM is only about the expected return. Other authors - Basu (1977), Banz (1981), Reinganum (1981), Litzenberger and Ramaswamy (1979), Keim (1983), Fama and French (1992) – suggest that:

- The expected return is not determined only by the beta and the market risk premium, but also by other characteristics of the companies, as: size, market to book ratio, dividend return etc., that is CAPM needs additional factors in order to explain the assets' return.
- The historical prices have nothing in common with the computation of the expected value of beta and historical market risk premium.

Nevertheless, the CAPM model is still widely used by investors in order to compute the expected returns of various assets. In later years a series of other

models were used as an alternative to the CAPM, respectively the Arbitrage Pricing Theory or the Multi-factorial Model.

1. Research objectives, methodology and data

The current research objective is to empirically test the CAPM model and to conclude if the predicted results are confirmed by the real behavior of the markets. Thus, in our study we will focus on USA (New York Stock Exchange and Nasdaq), Poland (Warsaw Stock Exchange) and Romania (Bucharest Stock Exchange). We compare these three markets by analyzing the performance of 10 shares traded on the markets of Warsaw and New York and 7 shares from different industries traded on Bucharest market, with various capitalizations and the highest liquidity. The selected companies are: Apple, Berkshire Hathaway, Ebay, McDonald's, Nike, JP Morgan, Exxon, Scholastic Corporation, SBA Communications and Boeing (US); Asseco, Cyfrowy Polsat, KGHM, Bank Pekao, Globe Trade Centre, Apator, Pelion, ATM, Famur and Rovese (Poland); SIF3, Banca Transilvania, Antibiotice S.A., SSIF Broker Cluj S.A., Alro Slatina and Transgaz (Romania).

The choice of these companies is motivated by the following:

- The S&P 500 index is preferred by the literature as a proxy of market portfolio. Poland has one of the most competitive markets in the CEE, with a high liquidity and can be analyzed with CAPM. The Romanian Stock Exchange is under-developed and the composite indexes (BET-C in the past and BET Plus in the present) are composed by a small number of shares and CAPM can generate questionable results, but we are interested by a comparison with the Polish market.

- Given the financial performance of the US and Poland, the risk free rate for the US can be considered as Treasury bills, government bonds with various maturities or Treasury notes; for Poland - government bonds with various maturities. For Romania the choice of the risk-free asset is problematic and we will use the return of government bonds with 5 years maturity. An alternative is the use of treasury bills interest rates or the National Bank of Romania deposit facility rate as the Romanian market is bank oriented.

Our paper analyzed a period of 5 years (2009-2013), excluding 2008, the year when the global financial crisis started and the majority of the markets were falling. The data is collected from the Yahoo Finance, Google Finance, Bloomberg and Investing.com websites and consist in daily closing adjusted prices of the mentioned stock. The adjustment is computed by the Yahoo Finance (only for US market) and includes the distribution of dividends, the M&A's and the related events. We computed by ourselves the stock returns and other statistical indicators and made a qualitative and quantitative analysis of the results. The risk-free asset return is computed, in our case, as the geometrical average of the monthly return of the T-Notes (US) and the geometric average of the government bills return (Poland and Romania) for the period 2009-2013. We then tested CAPM, estimating the following regression:

$$E(R_i) - r_f = \alpha_i + \beta_i[E(R_m) - r_f] + e_i \quad (1)$$



where:

$E(R_i)$ – expected return of the asset i ;

$E(R_m)$ – expected return of the market portfolio;

β – market (systematic) risk, computed as a ratio between the covariance of the asset i return and market portfolio return and the variance of the market portfolio return;

r_f – risk-free asset return;

α_i – excess expected return of asset i , that is not related to its risk. If CAPM is validated should then α_i should equal zero for all the assets;

e_i – standard error for asset i .

Finally we will compute the expected returns of the considered shares by applying the CAPM - $E(R_i) = r_f + \beta[E(R_m) - r_f]$, and will compare with the returns for 2014.

2. Results and discussion

Appendix 1 exhibits the correlation coefficients between the returns of the analyzed shares. As the evidence shows all the shares are highly and positively correlated and thus are not suitable for diversification. The largest correlation coefficients between the market portfolio (S&P 500) and the considered shares are 0.73 (Boeing), 0.74 (Berkshire Hathaway) and 0.81 (Exxon). Only the second one is part of the index. At a first view we may appreciate that CAPM will fit for these 3 shares.

Similar to the US case, the shares listed on the Polish market are positively correlated (Appendix 2) and cannot be considered for diversification for a portfolio that includes all of them. The largest correlation coefficients between the WIG30 return and the other shares are 0.8 (Bank Pekao), 0.71 (KGHM) and 0.56 (Asseco) and all three are part of the market index.

The Romanian shares are positively correlated and, again, cannot be considered a veritable source of portfolio diversification (Appendix 3). The largest correlation indexes between the BET-C index return and share return are 0.78 (Petrofina), 0.64 (SIF3) and 0.65 (Transgaz), while the smallest correlation is 0.16 (Banca Transilvania). We may anticipate that the latter share will have the smallest systematic risk (beta).

We estimated CAPM by using the market model for all the 10 shares listed on the US market, the 10 shares listed on Polish market and, respectively, the 7 shares listed on the Romanian market. First we check the statistical significance of the estimated coefficients (alpha and beta), respectively if these are significantly different from zero.

For alpha, null hypothesis is $H_0: \alpha=0$, and alternative hypothesis is $H_1: \alpha \neq 0$.

Table 1. Alpha estimates for New York Stock Exchange

Dependent var.	Industry	Alpha			
		coef. (alpha)	std. dev.	t-stat	prob
Apple	IT&C	0.000994	0.000415	2.3951*	0.0168



Dependent var.	Industry	Alpha			
Berkshire	Finance	-5.32E-05	0.000289	-0.1844	0.8537
Ebay	Internet, Online sales	0.000404	0.000457	0.8832	0.3773
McDonald's	Food	0.000184	0.000234	0.7864	0.4317
Nike	Clothing, accessories	0.41852	0.000367	1.1882	0.2350
JP Morgan	Banking, financial services	-0.000409	0.000507	-0.8071	0.4197
Exxon	Oil	-0.000189	0.000208	-0.9086	0.3637
Scholastic	Media	8.18E-05	0.000529	0.8773	0.8773
SBA	IT&C	0.000762	0.000374	2.040*	0.0416
Boeing	Aerospatial / Aeronautics	0.000389	0.000351	1.1089	0.2677

Source: Authors' calculations

For a significance level of 5%, the alpha coefficients are statistically different from zero for all the tested dependent variables (the value of t-statistic is not higher than 2 and we cannot reject the null hypothesis), except for Apple and SBA, that are not significantly different from zero (probability of 1.68 for Apple and 4.16% for SBA). Therefore we will accept the null hypothesis, $\alpha=0$, and can conclude that alpha coefficients are not significantly different from zero for the other 8 variables (Table 1).

For beta the null hypothesis is $H_0: \beta=0$ and alternative hypothesis is $H_1: \beta \neq 0$.

Table 2. Beta estimates for New York Stock Exchange

Dependent var.	Industry	Beta			
		coef. (beta)	std. dev.	t-stat	prob
Apple	IT&C	0.8837	0.0338	26.08	0.0000
Berkshire	Finance	0.9427	0.0232	40.03	0.0000
Ebay	Internet, Online sales	1.1861	0.0372	31.80	0.0000
McDonald's	Food	0.5103	0.0190	26.77	0.0000
Nike	Clothing, accessories	0.8992	0.0299	30.05	0.0000
JP Morgan	Banking, financial services	1.7894	0.0413	43.27	0.0000
Exxon	Oil	0.8433	0.0170	49.60	0.0000
Scholastic	Media	1.2118	0.0431	28.05	0.0000
SBA	IT&C	0.9740	0.0304	31.95	0.0000
Boeing	Aerospatial / Aeronautics	1.0887	0.0286	38.04	0.0000

Source: Authors' calculations

Table 2 shows that all the coefficients are statistically different from zero and we reject the null hypothesis. Moreover, the probability that beta equals zero is very close to zero for all the shares. Our results show that the riskiest shares are Ebay, Scholastic, JP Morgan and Boeing, with a beta larger than 1 (risk is larger than the market portfolio). As alpha coefficient (excess return) is not statistically different from zero for 8 shares of 10, The CAPM is valid for the US stock market.



Table 3. Alpha estimates for Warsaw Stock Exchange

Dependent var.	Industry	Alpha			
		coef. (alpha)	std. dev.	t-stat	prob
Assec	IT&C	-0.000261	0.000442	-0.5900	0.5553
Cyfrowy Polsat	Communications	0.000124	0.000515	0.24064	0.8099
KGHM	Mining	0.000660	0.000537	1.22921	0.2192
Bank Pekao	Banking	-0.000179	0.000400	-0.4475	0.6545
Globe Trade Centre	Real Estate	-0.000913	0.000612	-1.4928	0.1357
Apator	IT&C	0.000929	0.000514	1.80888	0.0707
Pelion	Health	0.000892	0.000625	1.42754	0.1537
ATM	Media	0.000797	0.000673	1.18466	0.2364
Famur	Mining	0.001022	0.000632	1.61721	0.1061
Rovese	Construction	-0.001892	0.001038	-1.82172	0.0687

Source: Authors' calculations

In the case of Poland we can't reject the null hypothesis and can conclude that the alpha coefficients are not statistically different from zero.

Table 4. Beta estimates for Warsaw Stock Exchange

Dependent var.	Industry	Beta			
		coef. (beta)	std. dev.	t-stat	prob
Assec	IT&C	0.7675	0.03171	24.2032	0.0000
Cyfrowy Polsat	Communications	0.4984	0.03693	13.4935	0.0000
KGHM	Mining	1.4070	0.03853	36.5166	0.0000
Bank Pekao	Banking	1.3615	0.02869	47.4476	0.0000
Globe Trade Centre	Real Estate	1.0524	0.04388	23.9839	0.0000
Apator	IT&C	0.3910	0.03683	10.6159	0.0000
Pelion	Health	0.5000	0.04481	11.1758	0.0000
ATM	Media	0.4630	0.04821	9.5990	0.0000
Famur	Mining	0.5291	0.04534	11.6710	0.0000
Rovese	Construction	1.0460	0.07447	14.0450	0.0000

Source: Authors' calculations

For the Polish market, beta is statistically significant for all the shares and we reject the null hypothesis. The shares with a largest risk than the market portfolio are KGHM, Bank Pekao, Globe Trade Centre and Rovese. As in the case of US, CAPM is valid as the alpha coefficients are not statistically different from zero.

Table 5. Alpha estimates for Bucharest Stock Exchange

Dependent var.	Industry	Alpha			
		coef. (alpha)	std. dev.	t-stat	prob
Alro Slatina	Manufacturing	-0.000271	0.000647	-0.4189	0.6753
Antibiotice	Farmaceutical	-2.69E-05	0.000525	-0.051	0.9592
Broker Cluj	Financial intermediation	-0.000238	0.000716	-0.3326	0.7395
Banca Transilvania	Banking	0.001253	0.001335	0.9391	0.3478

Petrom	Oil	0.000283	0.000367	0.7714	0.4406
SIF3	Finance	0.000165	0.000623	0.2649	0.7911
Transgaz	Natural Gas	3.00E-05	0.000371	0.0809	0.9355

Source: Authors' calculations

For a significance level of 5% all the alpha coefficients for Romanian shares are statistically different from zero. Moreover the t-statistic is much lower than the benchmark and it's clear that the null hypothesis can't be rejected.

Table 6. Beta estimates for Bucharest Stock Exchange

Dependent var.	Industry	Beta			
		coef. (beta)	std. dev.	t-stat	prob
Alro Slatina	Manufacturing	0.917768	0.043190	21.249	0.0000
Antibiotice	Farmaceutical	0.826362	0.035006	23.606	0.0000
Broker Cluj	Financial intermediation	1.258436	0.047790	26.332	0.0000
Banca Transilvania	Banking	0.515928	0.089061	5.7929	0.0000
Petrom	Oil	1.105000	0.024502	45.098	0.0000
SIF3	Finance	1.255676	0.041552	30.219	0.0000
Transgaz	Natural Gas	0.767217	0.024741	31.010	0.0000

Source: Authors' calculations

As Table 6 exhibits, all the beta coefficients are statistically significant and we reject the null hypothesis. Moreover the probability that beta equals zero is very close to zero for all the shares considered. From all the shares from the Romanian market sample, the riskiest are Broker Cluj, Petrom and SIF3 with a beta (systematic risk) larger than 1, thus larger than the portfolio risk.

After examining the statistical significance of the regression coefficients we test to what extent the independent variable (market portfolio return) explains the dependent variable movement by the R^2 statistic. We mention that the shares' returns are adjusted with $r_i^*[E(R_i)-r_f]$ and market returns are adjusted with $r_i^*[E(R_m)-r_f]$.

R^2 expresses how much of the variation of a share return is explained by the variation of the market portfolio return. Thus, in the case of Exxon (Appendix 4) 66,22% from the return variance is explained by the variance of the market portfolio return (S&P500). The standard error of the regression is considered in the market model as the specific risk of the particular share (the risk that can be diversified). For Exxon, this risk is 7,3% (the largest from the analyzed shares) and can be eliminated by diversification. The F-test checks if all the regression coefficients (except the constant) are significantly different from zero and in our analysis we reject the null hypothesis that beta equals zero.

For the Warsaw market, KGHM and Bank Pekao have the largest R^2 (Appendix 5), that is 51,63% of the return variance for KGHM (64,31% for Bank Pekao) is explained by the variance of the WIG30 index return. The largest non-systematic risks are of Rovese and ATM.

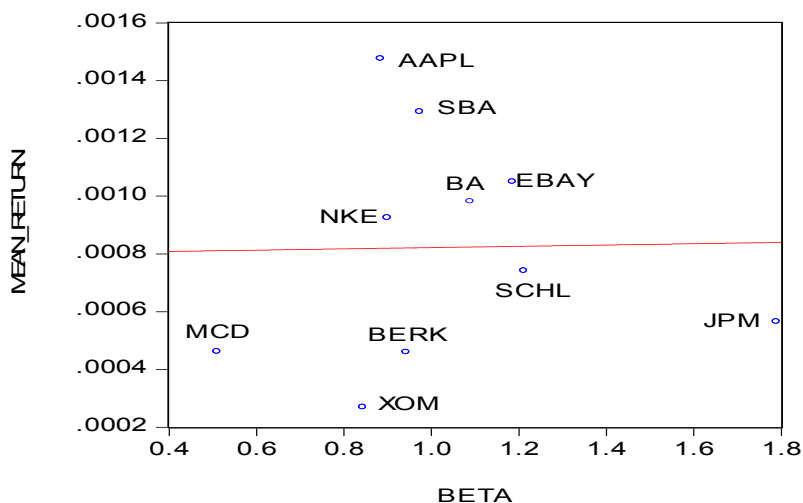
On Romanian market, Petrom has the largest R^2 (Appendix 6), that is 61,78% of the variance of share return is explained by the variance of the market



portfolio. The smallest value is for Banca Transilvania (only 2,59%); this is also the asset with the lowest risk comparing to the risk of the BET-C index (beta is 0.52). Moreover, Banca Transilvania has the largest specific risk (4.73%) that can be diversified.

By employing the CAPM estimated betas and the average returns of the analyzed shares, we built the Security Market Line (SML). If the assets are correctly valued, then they will be on the SML. Otherwise, if the shares are above the line, they are undervalued and a long position is recommended („buy”); if they are under the line (overvalued) a short position is recommended („sell”).

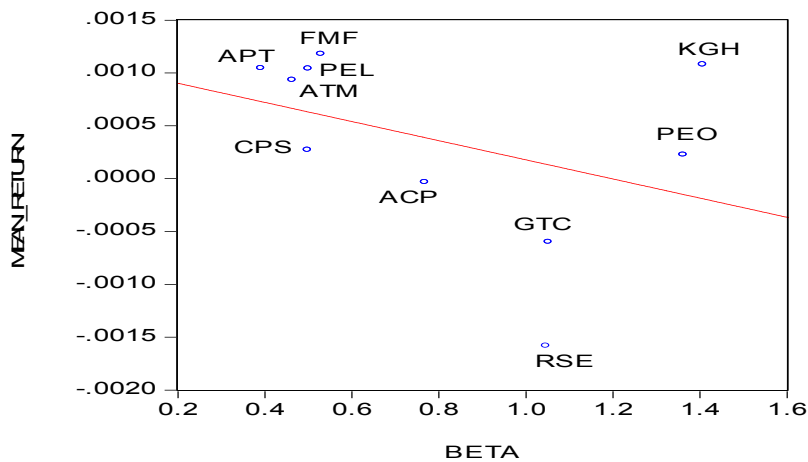
Figure 1. SML for USA market



Source: Authors' calculations

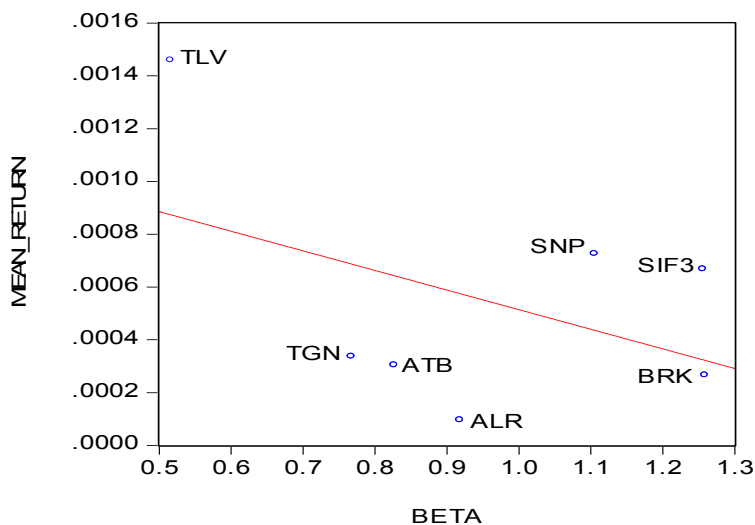
From Figure 1 results that Apple, SBA, Nike, Ebay and Boieng are undervalued and the investor should open a long position. Let's presume that we built a portfolio with these five shares at the end of 2013. Considering CAPM, the expected return will be: $E(R_{AAPL})=16.19\%$, $E(R_{SBA})=17.74\%$, $E(R_{EBAY})=21.22\%$, $E(R_{NIKE})=16.43\%$ si $E(R_{BA})=19.55\%$ ¹. If we presume that the shares have an equal weight in the portfolio, the expected return of the portfolio will be $E(R_{port})=0.2*16.19\%+0.2*17.74\%+0.2*21.22\%+0.2*16.43\%+0.2*19.55\%=18.23\%$. For 2014, the annual returns of the shares considered were 24.54% for Apple, 4.63% for Ebay, 23.52% for Nike, 13.49% for SBA and -0.87% for Boeing. Thus the portfolio return at the end of the year 2014 was 13.06%, smaller than the one predicted by CAPM.

¹ The expected return of the market portfolio is 18.10%, computed as the geometrical mean of the daily returns for 5 years and the risk-free asset has a return of 1.35%, calculated as a geometrical mean of the T-Notes return over 5 years.

Figure 2. SML for Polish market

Source: Authors' calculations

Figure 2 exhibits the SML for the Polish market. Considering CAPM the Apator, Famur, Pelion, ATM, KGHM and Bank Pekao shares are undervalued and need to be bought (long position). By estimating CAPM, on a portfolio of 20% APT (small risk and an average return close to the one of other shares) and 16% of each other shares will result $E(R_{\text{port}})=5.43\%$ (risk free asset has a return of 4.82% and 5.63% for WIG30). At the end of 2014, the annual return of the portfolio with similar weights was -7.79%, much smaller than the one predicted by CAPM.

Figure 3. SML for Romanian market

Source: Authors' calculations

Considering the theory, the shares TLV, SNP and SIF3 are overvalued and TGN, ATB, BRK and ALR are undervalued (Figure 3). In this case, we build a



portfolio from the first three shares with various weights: TLV – 50%, as it has a higher average return and a smaller risk comparing with the other shares and SNP and SIF3 – each 25%. The CAPM expected return will be $E(R_{TLV})=7.00\%$, $E(R_{SNP})=6.9\%$ and $E(R_{SIF3})=6.88\%^2$. The expected portfolio return will be: $0.5*7.00\%+0.25*6.9\%+0.25*6.88\%=6.95\%$. At the end of the year, the annual return of the portfolio was: $0.5*18.51\%+0.25*(-11.82\%)+0.25*(-78.51\%)= -13.33\%$, much lower than the one predicted by CAPM.

Conclusions

Following the empirical study, the CAPM is statistically validated both for the US and Polish and Romanian markets, but the expected return that it predicts was close to the effective return only for the shares traded on the New York Stock Exchange and Nasdaq. This result may be explained by the fact that the S&P index can proxy more closely the market portfolio as it has more share in its composition than WIN30 of BET-C. Thus, the CAPM manages to predict more precisely the expected returns on the developed markets, but it fails on the emerging markets. The consequences are that the investors may take wrong decisions and record losses on their portfolios.

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² The expected return of the market portfolio is 6.92%, computed as the geometrical mean of the daily returns for 5 years and the risk-free asset has a return of 7.08%, calculated as a geometrical mean of the government bonds return over 5 years.

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Appendices

Appendix 1. Correlation coefficients of the stock returns and S&P500 return on US market

	RSP	REBAY	RBOEING	RBERK	RAPPLE	RJPM	REXXON	RMCD	RSBA	RNIKE	RSCH
RSP	1.00	0.67	0.73	0.75	0.59	0.77	0.81	0.60	0.67	0.65	0.62
REBAY	0.67	1.00	0.46	0.49	0.41	0.47	0.51	0.38	0.45	0.44	0.44
RBOEING	0.73	0.46	1.00	0.58	0.41	0.51	0.60	0.47	0.48	0.50	0.46
RBERK	0.75	0.49	0.58	1.00	0.40	0.63	0.60	0.42	0.52	0.49	0.49
RAPPLE	0.59	0.41	0.41	0.40	1.00	0.42	0.39	0.36	0.42	0.40	0.33
RJPM	0.77	0.47	0.51	0.63	0.42	1.00	0.57	0.41	0.54	0.47	0.48
REXXON	0.81	0.51	0.60	0.60	0.39	0.57	1.00	0.52	0.49	0.49	0.48
RMCD	0.60	0.38	0.47	0.42	0.36	0.41	0.52	1.00	0.38	0.50	0.35
RSBA	0.67	0.45	0.48	0.52	0.42	0.54	0.49	0.38	1.00	0.48	0.41
RNIKE	0.65	0.44	0.50	0.49	0.40	0.47	0.49	0.50	0.48	1.00	0.41
RSCH	0.62	0.44	0.46	0.49	0.33	0.48	0.48	0.35	0.41	0.41	1.00

Source: Authors' calculations

Appendix 2. Correlation coefficients of the stock returns and WIG30 return on Polish market

	RWIG30	RROV	RPEL	RPEK	RKGHM	RGTC	RFAM	RCYF	RATM	RASC	RAPT
RWIG30	1.00	0.37	0.30	0.80	0.72	0.56	0.31	0.36	0.26	0.57	0.29
RROV	0.37	1.00	0.13	0.27	0.26	0.22	0.14	0.14	0.09	0.21	0.16
RPEL	0.30	0.13	1.00	0.24	0.24	0.16	0.10	0.12	0.09	0.17	0.17
RPEK	0.80	0.27	0.24	1.00	0.47	0.39	0.23	0.24	0.21	0.41	0.19
RKGHM	0.72	0.26	0.24	0.47	1.00	0.34	0.24	0.20	0.16	0.31	0.22
RGTC	0.56	0.22	0.16	0.39	0.34	1.00	0.19	0.25	0.17	0.35	0.18
RFAM	0.31	0.14	0.10	0.23	0.24	0.19	1.00	0.14	0.13	0.17	0.18
RCYF	0.36	0.14	0.12	0.24	0.20	0.25	0.14	1.00	0.12	0.22	0.08
RATM	0.26	0.09	0.09	0.21	0.16	0.17	0.13	0.12	1.00	0.16	0.08
RASC	0.57	0.21	0.17	0.41	0.31	0.35	0.17	0.22	0.16	1.00	0.14
RAPT	0.29	0.16	0.17	0.19	0.22	0.18	0.18	0.08	0.08	0.14	1.00

Source: Authors' calculations



Appendix 3. Correlation coefficients of the stock returns and BET-C return on Romanian market

	RBETC	RALR	RATB	RBRK	RSIF3	RSNP	RTGN	RTLTV
RBETC	1.00	0.51	0.55	0.60	0.65	0.79	0.66	0.16
RALR	0.51	1.00	0.25	0.31	0.38	0.30	0.31	0.16
RATB	0.55	0.25	1.00	0.38	0.46	0.39	0.38	0.17
RBRK	0.60	0.31	0.38	1.00	0.52	0.43	0.42	0.20
RSIF3	0.65	0.38	0.46	0.52	1.00	0.49	0.42	0.26
RSNP	0.79	0.30	0.39	0.43	0.49	1.00	0.46	0.22
RTGN	0.66	0.31	0.38	0.42	0.42	0.46	1.00	0.15
RTLTV	0.16	0.16	0.17	0.20	0.26	0.22	0.15	1.00

Source: Authors' calculations

Appendix 4. Regression statistics for New York Stock Exchange shares

Shares	R ²	Regression st. error	F-stat	Prob
Apple	0.3515	0.0147	680.3753	0.0000
Berkshire	0.5607	0.0102	1602.433	0.0000
Ebay	0.4462	0.0161	1011.564	0.0000
McDonald's	0.3635	0.0082	716.8741	0.0000
Nike	0.4185	0.0129	903.641	0.0000
JP Morgan	0.5986	0.0179	1872.317	0.0000
Exxon	0.6622	0.0073	2460.694	0.0000
Scholastic	0.3854	0.0187	787.075	0.0000
SBA	0.4486	0.0132	1021.145	0.0000
Boeing	0.5356	0.0124	1447.420	0.0000

Source: Authors' calculations

Appendix 5. Regression statistics for Warsaw Stock Exchange shares

Shares	R ²	Regression st. error	F-stat	Prob
Asseco	0.3192	0.0156	585.7959	0.0000
Cyfrowy Polsat	0.1272	0.0182	182.0760	0.0000
KGHM	0.5163	0.0189	1333.467	0.0000
Bank Pekao	0.6431	0.0141	2250.953	0.0000
Globe Trade Centre	0.3153	0.0216	575.2298	0.0000
Apator	0.0827	0.0181	112.6981	0.0000
Pelion	0.0909	0.0220	124.9006	0.0000
ATM	0.0687	0.0237	92.1408	0.0000
Famur	0.0983	0.0223	136.2144	0.0000
Rovese	0.1363	0.0367	197.2646	0.0000

Source: Authors' calculations

Appendix 6. Regression statistics for Romanian Stock Exchange shares

Shares	R ²	Regression st. error	F-stat	Prob
Alro Slatina	0.2641	0.0022	451.5516	0.0000
Antibiotice	0.3069	0.0186	557.2561	0.0000
Broker Cluj	0.3553	0.0254	693.4129	0.0000
Banca Transilvania	0.0259	0.0473	33.55881	0.0000
Petrom	0.6178	0.0130	2033.877	0.0000
SIF3	0.4205	0.0220	913.1985	0.0000
Transgaz	0.4332	0.0131	961.6321	0.0000

Source: Authors' calculations

EUROPEAN ECONOMY VS THE TRAP OF THE EUROPE 2020 STRATEGY

Romeo-Victor IONESCU*

Abstract: *The paper deals to the analysis of Europe 2020 Strategy goals' viability under the new global socio-economic context. These goals are analyzed using comparative analysis, regression and a cluster approach. A distinct part of the analysis is focused on forecasting procedures. The first conclusion of the paper is that the disparities between Member States are too high to allow achieving the Strategy's goals until 2020. Moreover, these disparities will maintain or will increase in 2020. At least two clusters can be built using the Member States' performances. The whole analysis and its conclusions are supported by the latest official statistic data, pertinent tables and diagrams.*

Keywords: economic disparities; economic clusters; employment rate; expenditure in R&D; greenhouse gas emissions; tertiary educational attainment; poverty risk; economic forecasting

Introduction

European Union was built as a huge socio-economic and political regional project able to put the organization as main global actor. The positive economic results were not followed by a political consensus regarding a European Constitution. On the other hand, the economic potential advantages continued to attract new states to adhere to the EU. Unfortunately, the adhering economic criteria were replaced by political and strategic interests and some economies faced to great problems in order to achieve the EU average economic development. This is why only Croatia adhered to the EU in the latest seven years. In order to reinforce the social and economic cohesion across the Member States, Europe 2020 Strategy was implemented. This strategy covers concrete targets related to employment, investment in R&D, environment protection, education and poverty (European Commission, 2010, p.3).

The success of the Strategy's implementation will represent argue to enlargement. But a possible failure of the Strategy will bring a lot of problems related to the organization's viability.

The paper realizes a complex analysis of the EU's socio-economic performances in the context of the Strategy's targets. Moreover, a distinct part of

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the paper deals to forecasting procedures in order to demonstrate the ability of the Member States to achieve the Strategy's targets in 2020.

1. Literature review

There are a lot of new scientific researches focused on Europe 2020 Strategy's goals. Some specialists analyzed the positive impact of the labor mobility on employment across the Europe. The analysis is realized on two levels: national and sub-national, in order to highlight the determinants of mobility flows. A distinct part of the analysis is focused on studying the dynamic response of labor mobility to the asymmetric demand shocks, using a vector auto regression (VAR) analysis. The main conclusion of the analysis is that the EU labor increased mobility significantly. This process was not the same for all Member States. As a result, the employment and unemployment rates are different. On the other hand, labor mobility is able to absorb 25% of the shock within 1 year and about 60% after 10 years (Arpaia *et al.*, 2014).

Kiss *at al.* (2014) studied employment trying to find the answer to the question regarding the present unemployment type. The analysis covers the European labor market after the global crisis' impact. The intermediate conclusion of the paper is that unemployment is cyclical or structural in different Member States and it influences the employment dimension and structure. The second intermediate conclusion is that the European labor market deteriorated after the crisis and this process supported heterogeneity across the EU countries. The solution proposed by the authors is implementing of active labor market policies together with increasing macroeconomic efficiency.

Turrini *at al.* (2014) moved the employment analysis in connection to the labor market reforms. They were focused on the EU labor market reforms during 2000-2011, using the LABREF database developed in DG ECFIN of the European Commission. According to this analysis, 2008 was the moment when the macroeconomic policies increased. These policies were focused on employment protection legislation, unemployment benefits and wage setting and tried to implement economic reform. The results of these reforms varied across the EU. The authors used econometric approach in order to quantify them.

R&D development represents another goal of Europe 2020 Strategy. Some papers proposed better cooperation in R&D activities under specific networks. Bernard *at al.* (2007), for example, used a binary choice model in order to highlight the existence of network and spatial effects alongside other microeconomic determinants of cooperation. The analysis tried to compare the social distance to spatial (geographical) distance and to highlight their impact on R&D cooperation. The main conclusion of the analysis was that the social distance had more importance than the geographical distance in building such R&D networks.

Another point of view is that related to the necessity of changing R&D policy in the EU under European Research Area's umbrella. This approach covered the analysis of the potential impacts, benefits and limits to R&D policy within Europe. This analysis was realized distinctly on short and long term. The

specialists saw the change in EU R&D policy as a complex consensus-building process. Moreover, they proposed a R&D policy in a multi-level governance system (Edler *et al.*, 2003).

A distinct analysis was made in order to connect R&D activities to European Funds. Paiera and Scherngella (2011), for example, analyzed the joint research projects funded within the European Framework Programmes for Research and Technological Development (EU-FPs). Their analysis was based on a discrete choice model, which was able to quantify data on EU-FP projects from the EUPRO. Moreover, they realized a representative survey of participants. The main conclusion of the analysis was that R&D cooperation across the EU is facilitated by prior acquaintance, thematic proximity and geographical proximity. On the other hand, the impact of the geographical effects increases for more intensive collaboration in R&D activities.

The environment protection represents another target of Europe 2020 Strategy. The Strategy is focused especially on the air pollution. As a result, the European Environment Agency (2014) realized a research related to the air pollution from EU industry. According to this analysis, the aggregate damage cost by pollutants achieved 189 billion Euros in 2012 (at 2005 prices). It decreased from 251 billion Euros in 2009 (EEA, 2014, p.53). The thematic strategy on air pollution was analyzed in the latest EEA Report (2014), in order to highlight the policy responses at national, regional and local levels in Member States. The radiography of the sources and emissions of air pollutants was followed by a description of the adverse effects of the air pollution on the human wealth. Finally, the analysis was focused on the air pollution effects on the climate change.

Europe 2020 Strategy highlights as an important target the education support for the sustainable development. This action will follow the Strategy for Education for Sustainable Development adopted in 2005, by incorporating the education strategy into formal, non-formal, and informal education. The Strategy for Education for Sustainable Development was updated in 2009, in order to promote the behavioral changes and citizens with the key competences needed to achieve sustainable development (AEGEE Europe, 2013).

Even Europe 2020 Strategy document stipulates the challenges for the Member States which have a direct impact on the ability of higher education systems: broadening access to higher education, reducing drop-out rates and the time it takes to complete a degree and improving the quality of higher education and making it more relevant (p.3). The last goal of the Europe 2020 Strategy is focused on poverty and social exclusion. Lelkes and Zolyomi (2011) analyzed the poverty risk rates and the social exclusion during 2004-2007. Moreover, they found a direct connection between the measures of poverty, deprivation and low work intensity.

The social poverty and social exclusion are challenges for almost all Member States. This is why a recent research used The Statistics on Income and Living Conditions (EU-SILC) database in order to find solution to this phenomenon. The main conclusion of the analysis was that any household with an income less than 60% of the median equivalized household income in a country is at risk of poverty (Haffner *et al.*, 2014).



2. Socio-economic analysis under Europe 2020 Strategy's goals

According to Europe 2020 Strategy, 75% of the 20-64 year-olds has to be employed until 2020. Some Member States (Bulgaria, Denmark, Germany, Estonia, Netherlands, Austria, Finland and Sweden) established higher rates, while other Member States (Belgium, Ireland, Greece, Spain, Croatia, Italy, Latvia, Lithuania, Luxembourg, Malta, Poland, Romania and Slovakia) fixed lower targets. On the other hand, there are great disparities across the EU28 related to this indicator. This observation is supported by the latest official statistical data (see Table 1).

Table 1 – Employment rate (%)

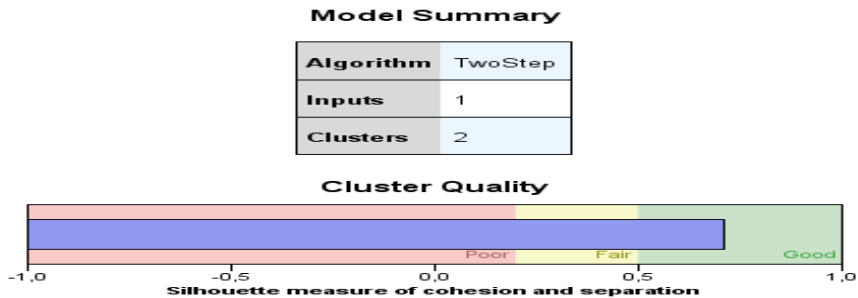
No.	Country	2007	2008	2009	2010	2011	2012	2013	2020
1	Belgium	67.7	68.0	67.1	67.6	67.3	67.2	67.2	67.5
2	Bulgaria	68.4	70.7	68.8	65.4	62.9	63.0	63.5	66.1
3	Czech Rep.	72.0	72.4	70.9	70.4	70.9	71.5	72.5	71.5
4	Denmark	79.0	79.7	77.5	75.8	75.7	75.4	75.6	69.6
5	Germany	72.9	74.0	74.2	74.9	76.5	76.9	77.3	82.8
6	Estonia	76.9	77.1	70.0	66.8	70.6	72.2	73.3	65.3
7	Ireland	73.8	72.3	66.9	64.6	63.8	63.7	65.5	51.1
8	Greece	65.8	66.3	65.6	63.8	59.6	55.0	52.9	37.3
9	Spain	69.7	68.5	64.0	62.8	62.0	59.6	58.6	44.6
10	France	69.8	70.4	69.5	69.3	69.3	69.4	69.6	68.6
11	Croatia	62.3	62.9	61.7	58.7	57.0	55.4	57.2	46.8
12	Italy	62.8	63.0	61.7	61.1	61.2	61.0	59.8	56.7
13	Cyprus	76.8	76.5	75.3	75.0	73.4	70.2	67.2	58.0
14	Latvia	75.2	75.4	66.6	64.3	66.3	68.1	69.7	58.2
15	Lithuania	72.7	72.0	67.0	64.3	66.9	68.5	69.9	63.2
16	Luxembourg	69.6	68.8	70.4	70.7	70.1	71.4	71.1	73.7
17	Hungary	62.6	61.9	60.5	60.4	60.7	62.1	63.2	62.5
18	Malta	58.6	59.2	59.0	60.1	61.6	63.1	64.8	71.3
19	Netherlands	77.8	78.9	78.8	76.8	77.0	77.2	76.5	74.3
20	Austria	74.4	75.1	74.7	74.9	75.2	75.6	75.5	76.8
21	Poland	62.7	65.0	64.9	64.3	64.5	64.7	64.9	66.4
22	Portugal	72.5	73.1	71.1	70.3	68.8	66.3	65.4	56.4
23	Romania	64.4	64.4	63.5	63.3	62.8	63.8	63.9	62.5
24	Slovenia	72.4	73.0	71.9	70.3	68.4	68.3	67.2	60.0
25	Slovakia	67.2	68.8	66.4	64.6	65.0	65.1	65.0	60.5
26	Finland	74.8	75.8	73.5	73.0	73.8	74.0	73.3	71.2
27	Sweden	80.1	80.4	78.3	78.1	79.4	79.4	79.8	78.7
28	UK	75.2	75.2	73.9	73.6	73.6	74.2	74.8	73.1

Source: Eurostat

A regression analysis supports the idea of great disparities even in 2013, the last year with official available data. According to this analysis, at least two clusters can be built using the employment rate (Figure 11 a).

In order to simplify the analysis, the Member States were divided into two clusters, as in Table 1. The first cluster covers: Belgium, Czech Republic, Denmark, Germany, Estonia, France, Cyprus, Latvia, Lithuania, Luxembourg, Netherlands, Austria, Finland, Sweden and UK, while the second cluster is formed from: Bulgaria, Ireland, Greece, Spain, Croatia, Italy, Hungary, Malta, Poland, Portugal, Romania, Slovenia and Slovakia. The viability of this approach is supported by Figure 2, where the cluster quality is good enough (0.7).

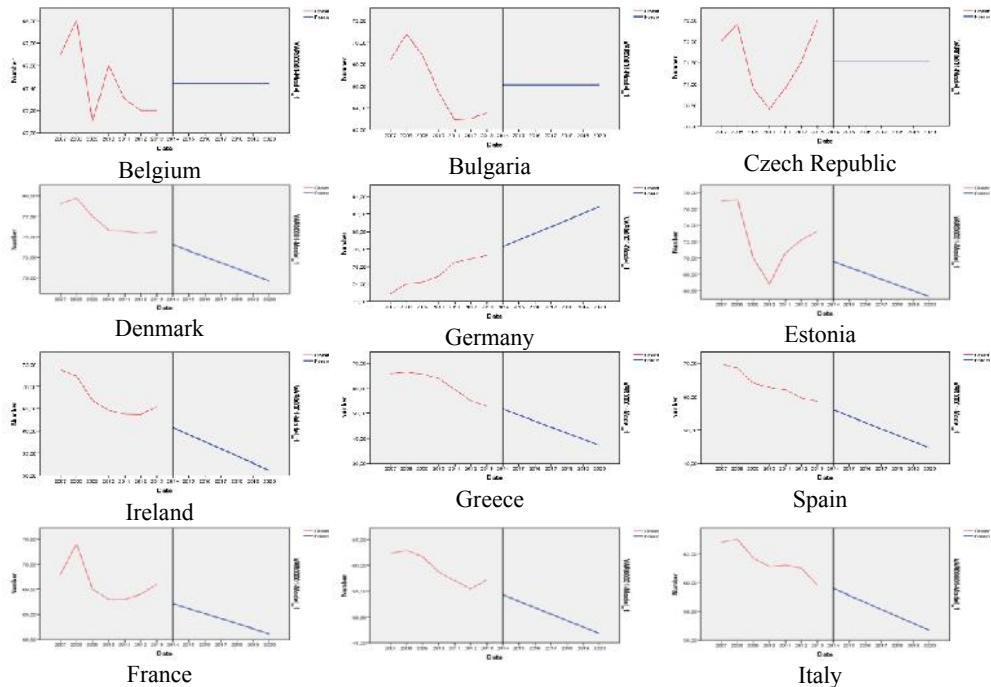
Figure 1. Employment rate under cluster analysis

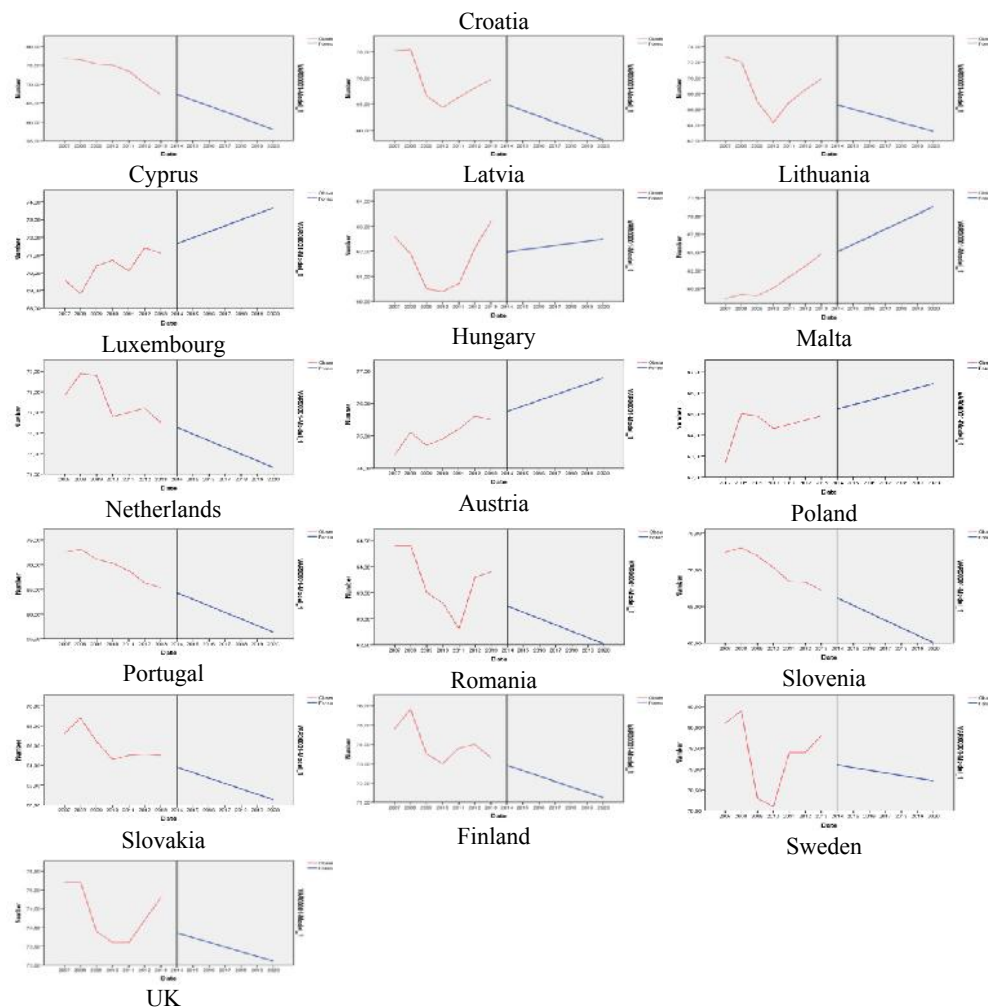


Source: personal contribution using IBM-SPSS software

The real challenge for the analysis is to demonstrate if the Member States will be able to achieve the Europe 2020 Strategy's target of 75% in 2020. The individual performances for each Member States are presented in Figure 2.

Figure 2. Employment rate forecasting





Source: personal contribution using IBM-SPSS software

According to Figure 2, the Europe 2020 Strategy's goal for employment will not be achieved by many Member States. Moreover, the disparities regarding employment between the Member States will increase in 2020 compared to 2013. The relative disparity will increase from 1:1.51 in 2013, to 1: 2.11 in 2020. On the other hand, the cluster approach for 2013 can be used in 2020.

Europe 2020 Strategy establishes a target of investing 3% of GDP in R&D in particular by improving the conditions for R&D investment by the private sector, and developing a new indicator to track innovation. This indicator seems to create the greatest disparities across the EU, because many Member States are not able and will be not able to achieve it, even in 2020. This is why some countries (Bulgaria, Czech Republic, Ireland, Greece, Spain, Croatia, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Malta, Netherlands, Poland, Portugal, Romania, Slovakia and UK) established national individual targets lower than 3%. On the

other hand, the latest official data highlight low performances regarding the investment in R&D (see Table 2).

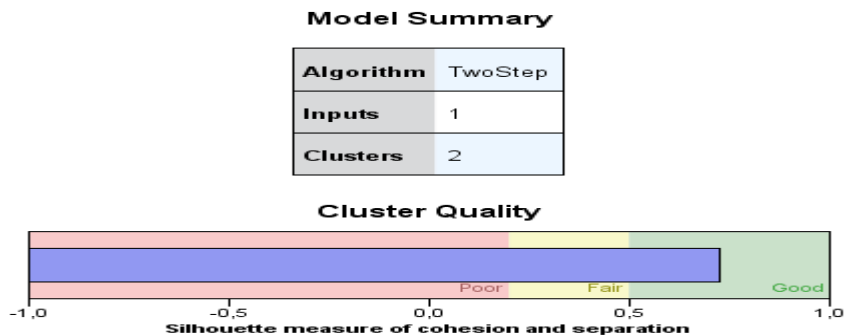
Table 2. Gross domestic expenditure on R&D (% of GDP)

No.	Country	2007	2008	2009	2010	2011	2012	2013	2020
1	Belgium	1.84	1.92	1.97	2.05	2.15	2.24	2.28	2.83
2	Bulgaria	0.44	0.46	0.51	0.59	0.55	0.62	0.65	0.90
3	Czech Rep.	1.31	1.24	1.30	1.34	1.56	1.79	1.91	2.62
4	Denmark	2.51	2.78	3.07	2.94	2.97	3.03	3.05	3.63
5	Germany	2.45	2.60	2.73	2.72	2.80	2.88	2.94	3.48
6	Estonia	1.07	1.26	1.40	1.58	2.34	2.16	1.74	3.34
7	Ireland	1.24	1.39	1.63	1.62	1.53	1.58	1.58	1.97
8	Greece	0.58	0.66	0.63	0.60	0.67	0.69	0.78	0.91
9	Spain	1.23	1.32	1.35	1.35	1.32	1.27	1.24	1.26
10	France	2.02	2.06	2.21	2.18	2.19	2.23	2.23	2.50
11	Croatia	0.79	0.88	0.84	0.74	0.75	0.75	0.81	0.69
12	Italy	1.13	1.16	1.22	1.22	1.21	1.26	1.25	1.40
13	Cyprus	0.40	0.39	0.45	0.45	0.46	0.43	0.48	0.56
14	Latvia	0.56	0.58	0.45	0.60	0.70	0.66	0.60	0.78
15	Lithuania	0.80	0.79	0.83	0.78	0.90	0.90	0.95	1.11
16	Luxembourg	1.65	1.65	1.72	1.50	1.41	1.16	1.16	0.48
17	Hungary	0.97	0.99	1.14	1.15	1.20	1.27	1.41	1.85
18	Malta	0.55	0.53	0.52	0.64	0.70	0.87	0.85	1.29
19	Netherlands	1.70	1.65	1.69	1.72	1.89	1.97	1.98	2.40
20	Austria	2.43	2.59	2.61	2.74	2.68	2.81	2.81	3.26
21	Poland	0.56	0.60	0.67	0.72	0.75	0.89	0.87	1.29
22	Portugal	1.12	1.45	1.58	1.53	1.46	1.37	1.36	1.57
23	Romania	0.52	0.57	0.46	0.45	0.49	0.48	0.39	0.29
24	Slovenia	1.42	1.63	1.82	2.06	2.43	2.58	2.59	4.23
25	Slovakia	0.45	0.46	0.47	0.62	0.67	0.81	0.83	1.34
26	Finland	3.35	3.55	3.75	3.73	3.64	3.43	3.32	3.38
27	Sweden	3.26	3.50	3.42	3.22	3.22	3.28	3.21	3.02
28	UK	1.69	1.69	1.75	1.69	1.69	1.63	1.63	1.55

Source: EUROSTAT

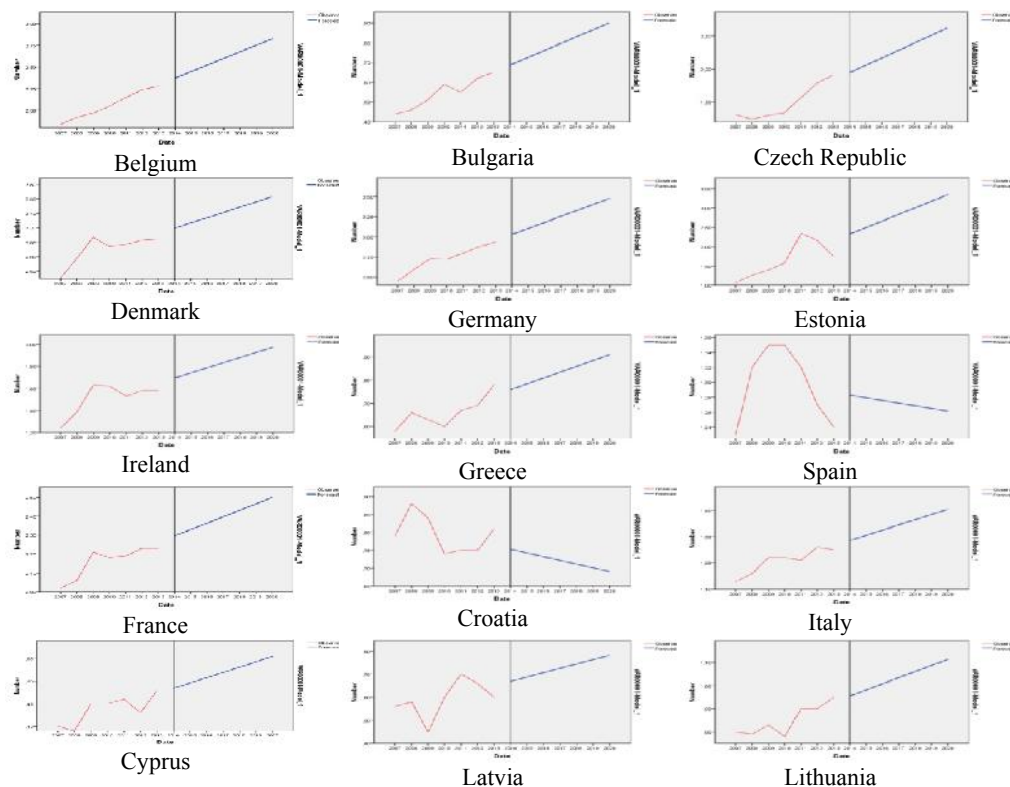
The data for 2013 from Table 2 highlights great disparities which lead to the same two clusters approach as that used for the employment's analysis. Moreover, 73.3% of the clusters' structure according to investment in R&D in 2013 is the same as according to the employment rate in the same year. The viability of these two clusters connected to Figure 16 c is demonstrated in Figure 3.

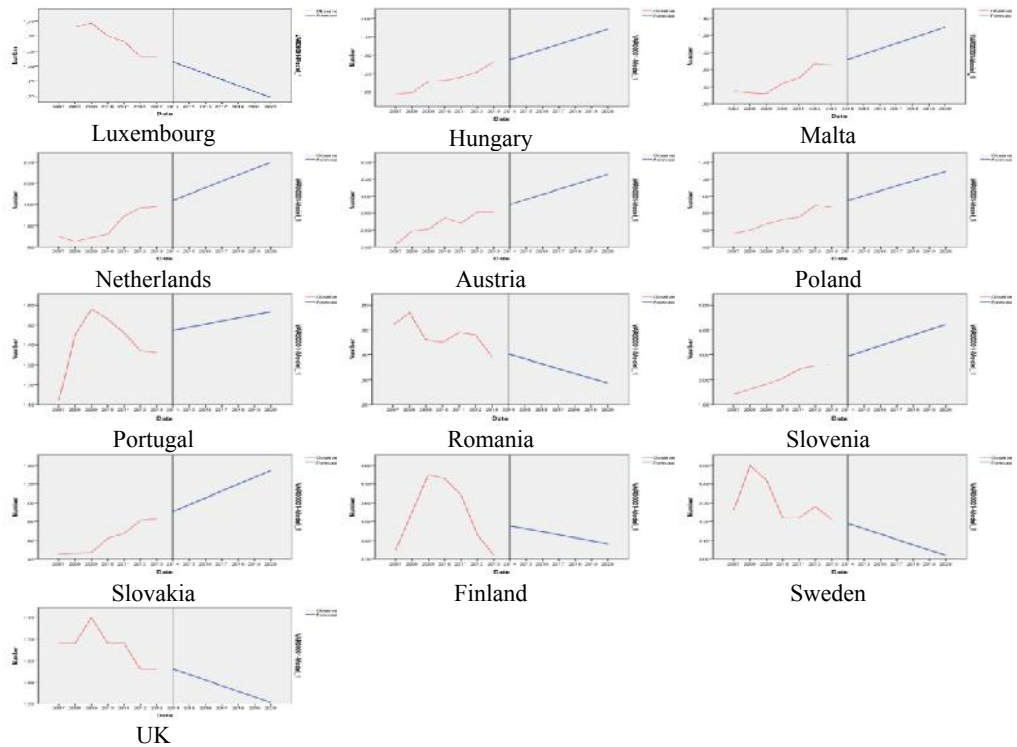


Figure 3. Investment in R&D under cluster analysis

Source: personal contribution using IBM-SPSS software

The cluster quality of 0.7 is good enough. The trend of the investment in R&D is presented in Figure 4. According to this figure, only seven Member States will be able to achieve 3.0% of GDP for investment in R&D in 2020. As a result, the Europe 2020 Strategy's target is unrealistic.

Figure 4. Investment in R&D forecasting



Source: personal contribution using IBM-SPSS software

Europe 2020 Strategy proposed to reduce greenhouse gas emissions by at least 20% compared to 1990 levels or by 30% if the conditions are right, increase the share of renewable energy in final energy consumption to 20%, and achieve a 20% increase in energy efficiency. The greenhouse gas emissions decreased across the EU, but not enough (see Table 3)

Table 3. Greenhouse gas emissions (1990=100%)

No.	Country	2007	2008	2009	2010	2011	2012	2013	2020
1	Belgium	94.09	95.94	87.04	92.26	85.27	82.56	82.56	65.99
2	Bulgaria	62.79	61.43	52.97	55.33	60.54	56.02	56.02	49.46
3	Czech Rep.	75.44	72.90	68.79	70.18	69.29	67.32	67.32	57.67
4	Denmark	99.49	94.55	90.05	90.67	83.84	76.93	76.93	48.52
5	Germany	79.51	79.79	74.40	77.06	75.58	76.55	76.55	72.00
6	Estonia	51.82	48.21	40.00	49.13	50.56	47.40	47.40	47.78
7	Ireland	126.86	125.85	114.64	114.04	106.25	107.04	107.04	76.86
8	Greece	128.11	124.61	118.02	111.73	108.97	105.71	105.71	73.96
9	Spain	153.93	142.33	128.57	124.41	124.41	122.48	122.48	81.87
10	France	98.05	97.22	92.80	94.08	89.52	89.46	89.46	77.02
11	Croatia	102.17	98.10	91.75	90.26	89.21	82.65	82.65	58.11
12	Italy	108.09	105.26	95.39	97.25	94.87	89.72	89.72	66.22
13	Cyprus	165.15	167.66	162.91	158.63	155.30	147.72	147.72	122.20
14	Latvia	46.25	44.62	42.23	46.71	43.51	42.92	42.92	39.89



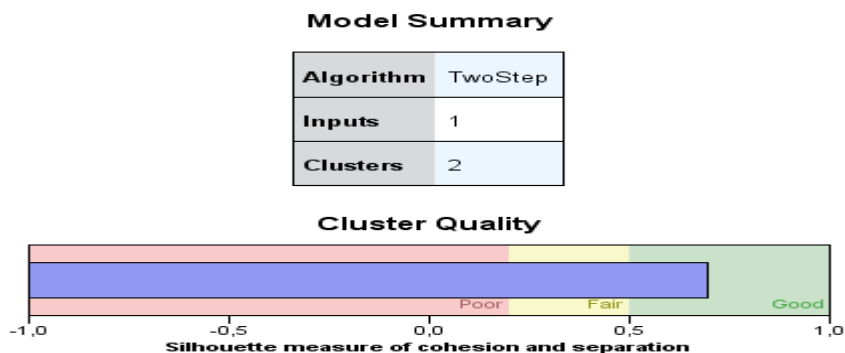
No.	Country	2007	2008	2009	2010	2011	2012	2013	2020
15	Lithuania	53.58	51.23	41.82	43.29	44.48	44.41	44.41	32.43
16	Luxembourg	102.84	101.61	97.40	101.86	100.42	97.48	97.48	92.26
17	Hungary	77.87	75.58	68.99	69.66	68.03	63.70	63.70	45.64
18	Malta	153.91	152.50	148.88	150.50	152.54	156.90	156.90	160.80
19	Netherlands	99.49	99.13	96.22	101.43	94.98	93.26	93.26	85.51
20	Austria	112.89	112.79	103.90	110.00	107.56	104.02	104.02	93.42
21	Poland	89.24	87.29	83.32	87.57	87.19	85.85	85.85	83.34
22	Portugal	133.04	129.59	124.10	117.70	115.74	114.87	114.87	88.45
23	Romania	57.64	56.46	48.44	46.81	49.08	47.96	47.96	39.41
24	Slovenia	112.29	116.20	105.18	105.37	105.62	102.62	102.62	87.23
25	Slovakia	66.19	67.04	61.13	62.06	61.13	58.40	58.40	47.53
26	Finland	112.02	100.83	94.74	106.62	96.49	88.13	88.13	64.09
27	Sweden	91.07	88.43	82.64	90.74	85.13	80.73	80.73	69.95
28	UK	88.22	85.70	78.73	80.55	75.33	77.50	77.50	61.95

Source: Eurostat

It is very difficult to quantify the real decrease in greenhouse gas emissions, because some Member States faced to recession, especially during 2008-2010. As a result, some decrease in greenhouse gas emissions is the result of economic contraction, not of environment policies' implementation. The disparities related to this indicator are presented in Figure 11 e. According to this figure, one cluster covers: Belgium, Ireland, Greece, Spain, France, Italy, Cyprus, Luxembourg, Malta, Netherlands, Austria, Poland, Portugal, Slovenia and Finland. The Member States from the other cluster achieved lower emission rates.

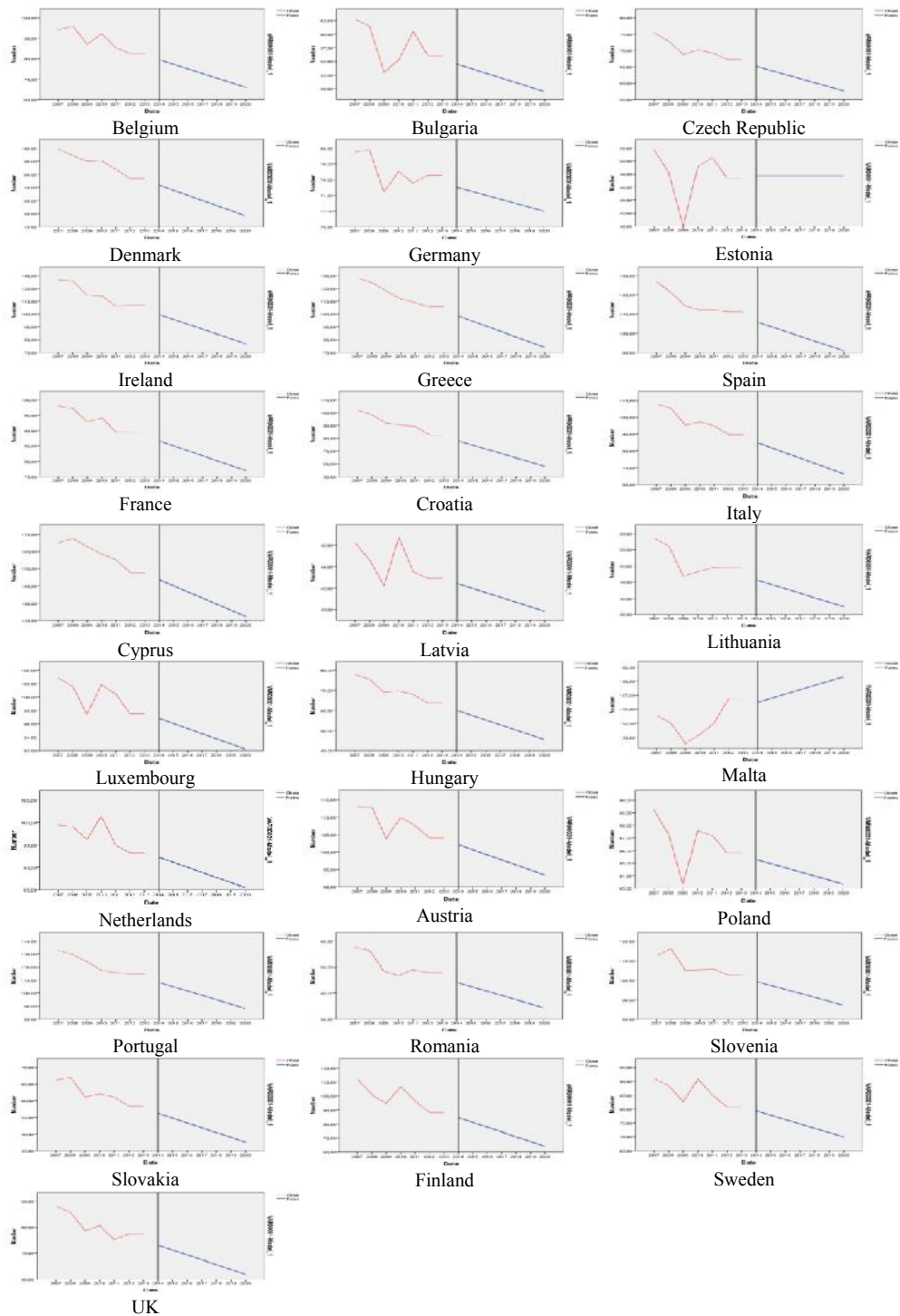
The cluster approach is supported by Figure 5. The average cluster quality value of 0.7 is good enough to sustain the initial two clusters assumption.

Figure 5. Greenhouse gas emissions under cluster analysis



Source: personal contribution using IBM-SPSS software

The trend of the greenhouse gas emissions is realized using a dedicated forecasting procedure in Figure 6.

Figure 6. Greenhouse gas emissions forecasting

Source: personal contribution using IBM-SPSS software



No all Member States will be able to decrease the greenhouse gas emissions at 80% compared to 1990. On the other hand, forecasted economic low development can lead to wrong conclusions related to this process.

Another goal of the Strategy is to reduce the share of early school leavers to 10% from the current 15% and to increase the share of the population aged 30–34 having completed tertiary from 31% to at least 40% until 2020. The analysis in this paper focused on tertiary educational attainment, which had a positive trend during the latest years (see Table 4).

Table 4. Tertiary educational attainment (%)

No.	Country	2007	2008	2009	2010	2011	2012	2013	2020
1	Belgium	41.5	42.9	42.0	44.4	42.6	43.9	42.7	45.0
2	Bulgaria	26.0	27.1	27.9	27.7	27.3	26.9	29.4	30.8
3	Czech Rep.	13.3	15.4	17.5	20.4	23.7	25.6	26.7	44.2
4	Denmark	38.1	39.2	40.7	41.2	41.2	43.0	43.4	49.5
5	Germany	26.5	27.7	29.4	29.8	30.7	32.0	33.1	40.5
6	Estonia	33.5	34.4	36.3	40.2	40.2	39.5	43.7	54.2
7	Ireland	43.3	46.1	48.9	50.1	49.7	51.1	52.6	62.6
8	Greece	26.3	25.7	26.6	28.6	29.1	31.2	34.9	42.9
9	Spain	40.9	41.3	40.7	42.0	41.9	41.5	42.3	43.6
10	France	41.4	41.2	43.2	43.4	43.3	43.5	44.1	47.4
11	Croatia	16.7	18.5	20.6	24.3	24.5	23.7	25.6	36.6
12	Italy	18.6	19.2	19.0	19.8	20.3	21.7	22.4	26.5
13	Cyprus	46.2	47.1	45.0	45.3	46.2	49.9	47.8	50.9
14	Latvia	25.7	26.3	30.5	32.6	35.9	37.2	40.7	58.5
15	Lithuania	36.4	39.9	40.4	43.8	45.7	48.6	51.3	67.8
16	Luxembourg	35.3	39.8	46.6	46.1	48.2	49.6	52.5	71.4
17	Hungary	20.1	22.4	23.9	25.7	28.1	29.9	31.9	45.5
18	Malta	20.8	21.0	21.9	20.6	23.4	24.9	26.0	31.5
19	Netherlands	36.4	40.2	40.5	41.4	41.1	42.2	43.1	49.5
20	Austria	21.1	22.2	23.5	23.5	23.8	26.3	27.3	33.6
21	Poland	27.0	29.7	32.8	34.8	36.5	39.1	40.5	56.8
22	Portugal	19.5	21.6	21.3	24.0	26.7	27.8	30.0	42.0
23	Romania	13.9	16.0	16.8	18.1	20.4	21.8	22.8	33.5
24	Slovenia	31.0	30.9	31.6	34.8	37.9	39.2	40.1	53.0
25	Slovakia	14.8	15.8	17.6	22.1	23.2	23.7	26.9	41.2
26	Finland	47.3	45.7	45.9	45.7	46.0	45.8	45.1	43.7
27	Sweden	41.0	42.0	43.9	45.3	46.8	47.9	48.3	58.1
28	UK	38.5	39.7	41.5	43.0	45.8	47.1	47.6	59.9

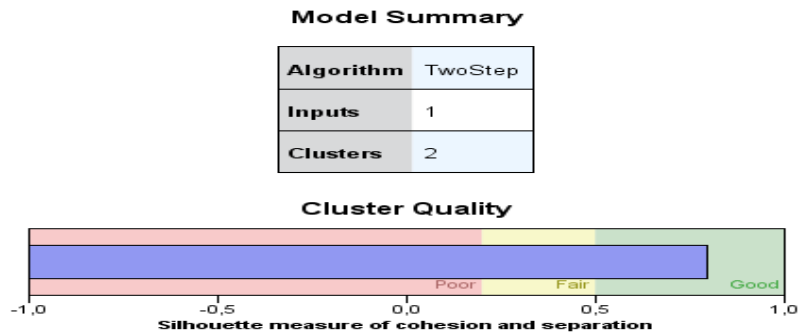
Source: Eurostat

As a general point of view, Member States succeeded in increasing their tertiary educational attainment rates during 2007-2013. More than 57% of them achieved the Strategy's goal of 40% in 2013. On the other hand, there are still too high disparities across the EU (see Figure 11 g). The disparities in Figure 16 g lead to building two "classic" clusters. The first one covers: Belgium, Denmark, Estonia, Ireland, Spain, France, Cyprus, Latvia, Lithuania, Luxembourg,



Netherlands, Poland, Slovenia, Finland, Sweden and UK. The second cluster is formed from the Member States which will face to lower tertiary educational attainment rates in 2020.

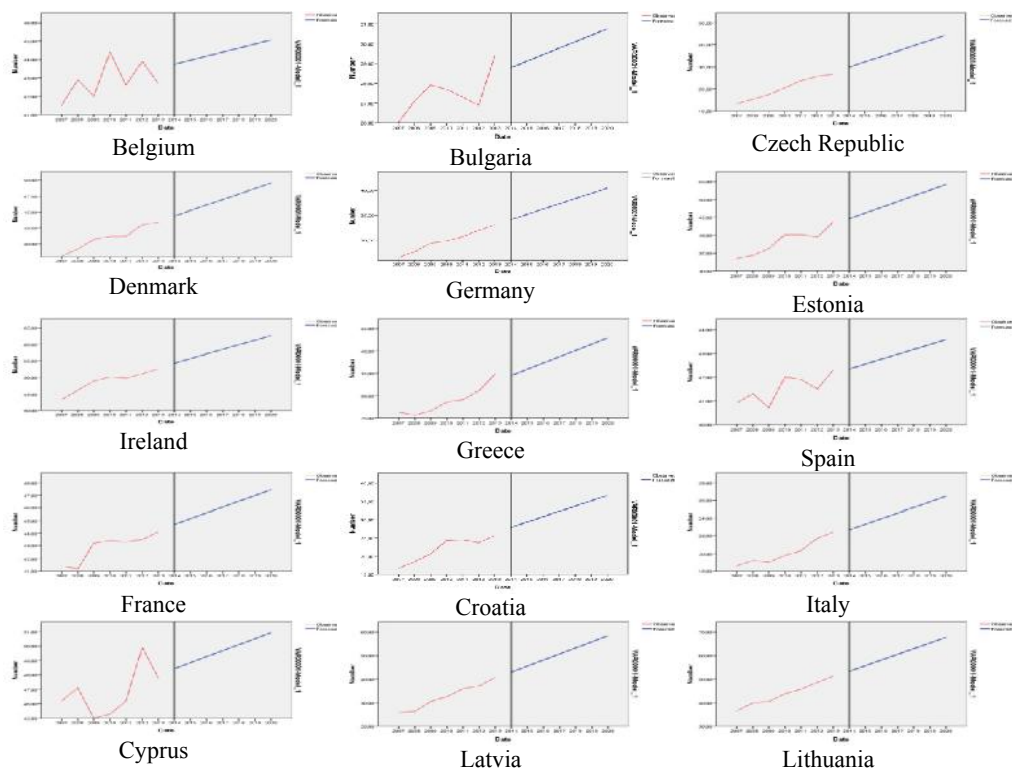
Figure 7. Tertiary educational attainment under cluster analysis

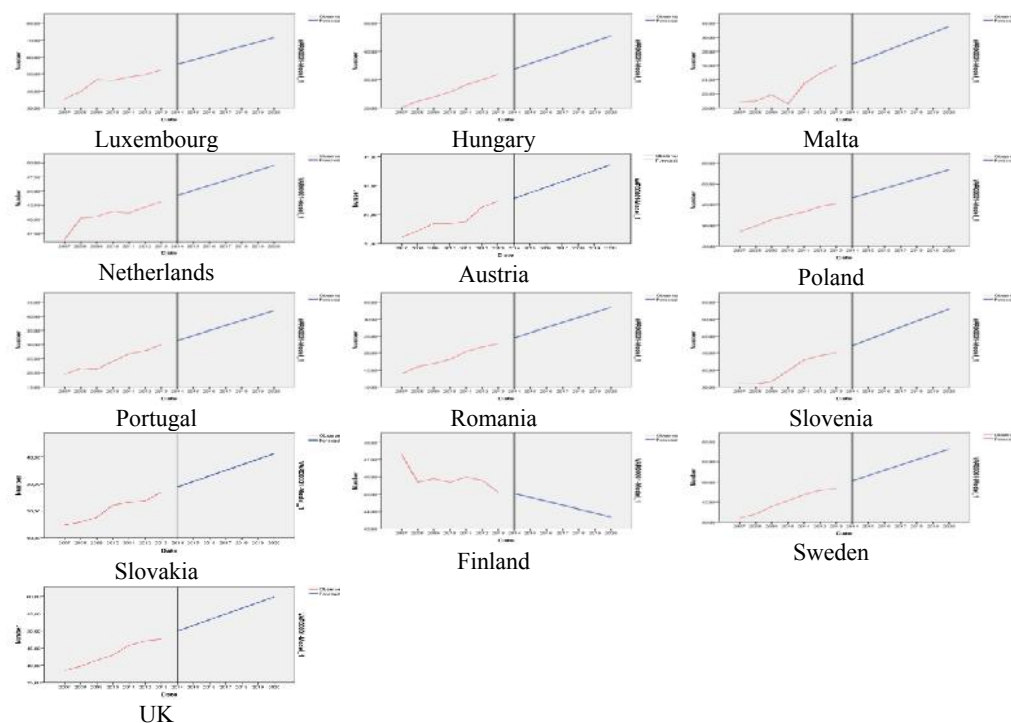


Source: personal contribution using IBM-SPSS software

The cluster approach is based on good cluster quality (0.8) in Figure 7. The tertiary educational attainment rates in 2020 are presented in Figure 8.

Figure 8. Tertiary educational attainment forecasting





Source: personal contribution using IBM-SPSS software

All Member States will succeed in achieving higher educational rates in 2020 compared to 2013. Some Member States will be not able to achieve the Strategy goal of 40%.

People at risk of poverty or social exclusion represent the last goal of the Europe 2020 Strategy. This is why the Strategy asks to reduce the number of Europeans living below national poverty lines by 25%, lifting 20 million people out of poverty. In order to study this phenomenon, the analysis in the paper focused on people at risk of poverty or social exclusion as percentage of total population. The evolution of this indicator during 2008-2013 is presented in Table 5.

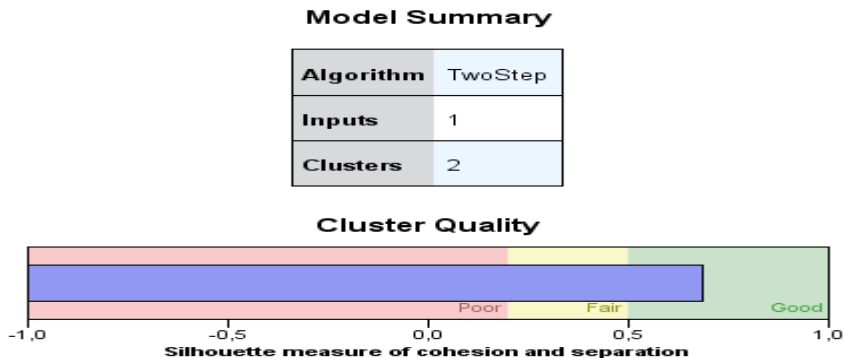
Table 5. People at risk of poverty (% of total population)

No.	Country	2007	2008	2009	2010	2011	2012	2013	2020
1	Belgium	21.6	20.8	20.2	20.8	21.0	21.6	20.8	20.9
2	Bulgaria	60.7	44.8	46.2	49.2	49.1	49.3	48.0	40.3
3	Czech Rep.	15.8	15.3	14.0	14.4	15.3	15.4	14.6	14.2
4	Denmark	16.8	16.3	17.6	18.3	18.9	19.0	18.9	22.6
5	Germany	20.6	20.1	20.0	19.7	19.9	19.6	20.3	19.3
6	Estonia	22.0	21.8	23.4	21.7	23.1	23.4	23.5	25.3
7	Ireland	23.1	23.7	25.7	27.3	29.4	30.0	30.0	40.2
8	Greece	28.3	28.1	27.6	27.7	31.0	34.6	35.7	44.2
9	Spain	23.3	24.5	24.5	26.7	27.7	28.2	27.3	34.1
10	France	19.0	18.5	18.5	19.2	19.3	19.1	18.1	18.6
11	Croatia	31.1	31.1	31.1	31.1	32.6	32.6	29.9	31.4

No.	Country	2007	2008	2009	2010	2011	2012	2013	2020
12	Italy	26.0	25.3	24.7	24.5	28.2	29.9	28.4	33.8
13	Cyprus	25.2	23.3	23.5	24.6	24.6	27.1	27.8	31.0
14	Latvia	35.1	34.2	37.9	38.2	40.1	36.2	35.1	38.9
15	Lithuania	28.7	27.6	29.6	34.0	33.1	32.5	30.8	37.9
16	Luxembourg	15.9	15.5	17.8	17.1	16.8	18.4	19.0	22.2
17	Hungary	29.4	28.2	29.6	29.9	31.0	32.4	33.5	38.5
18	Malta	19.7	20.1	20.3	21.2	22.1	23.1	24.0	28.9
19	Netherlands	15.7	14.9	15.1	15.1	15.7	15.0	15.9	15.8
20	Austria	16.7	20.6	19.1	18.9	19.2	18.5	18.8	19.6
21	Poland	34.4	30.5	27.8	27.8	27.2	26.7	25.8	16.5
22	Portugal	25.0	26.0	24.9	25.3	24.4	25.3	27.4	27.3
23	Romania	45.9	44.2	43.1	41.4	40.3	41.7	40.4	33.7
24	Slovenia	17.1	18.5	17.1	18.3	19.3	19.6	20.4	23.7
25	Slovakia	21.3	20.6	19.6	20.6	20.6	20.5	19.8	19.1
26	Finland	17.4	17.4	16.9	16.9	17.9	17.2	16.0	15.8
27	Sweden	13.9	14.9	15.9	15.0	16.1	15.6	16.4	18.6
28	UK	22.6	23.2	22.0	23.2	22.7	24.1	24.8	26.4

Source: Eurostat

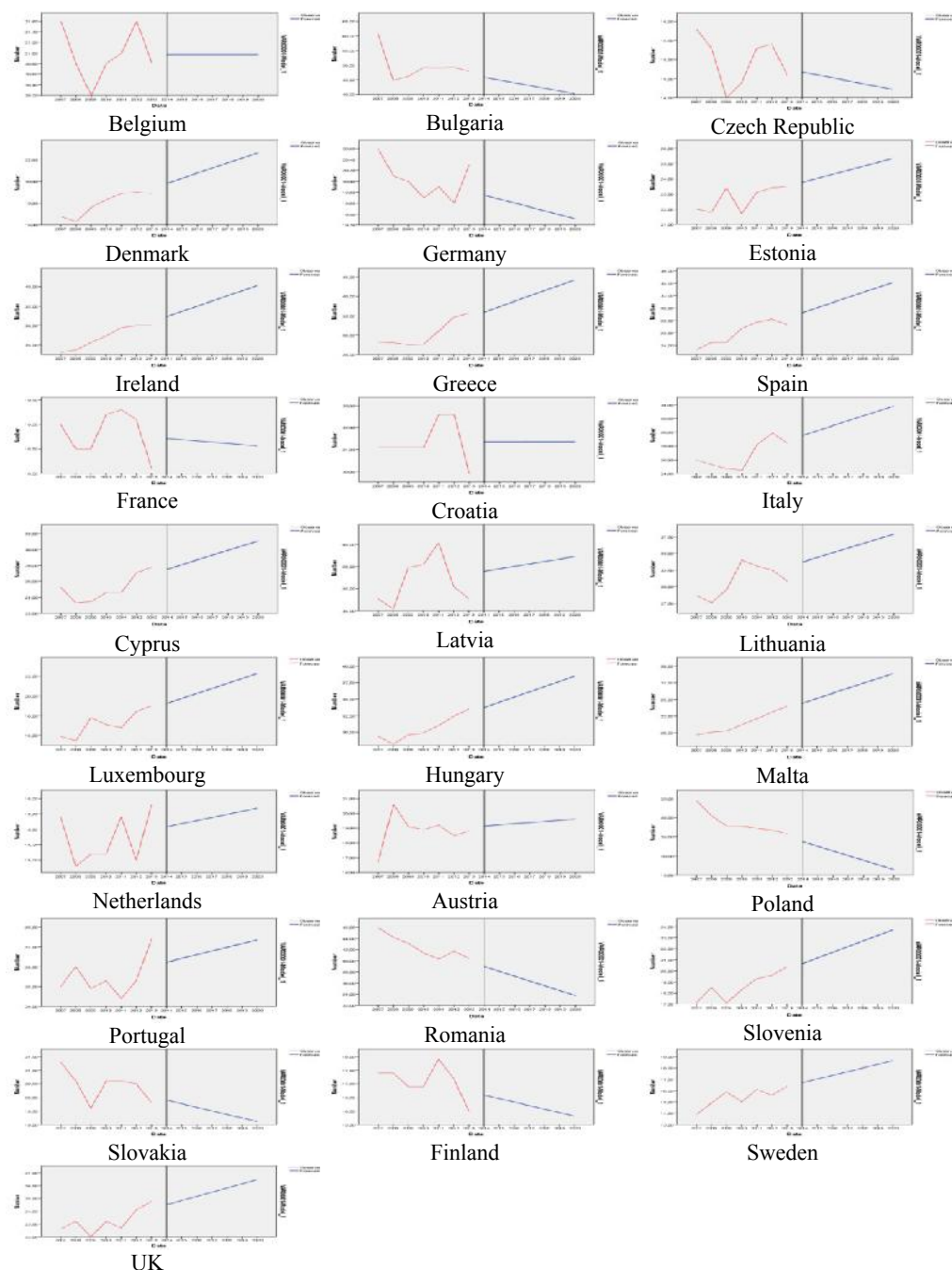
There are many Member States which faced to an increase of the people at risk of poverty or social exclusion during 2007-2013. On the other hand, the disparities related this indicator were high in 2013 (see Figure 11 i). According to Figure 11 i, the use of the two clusters grouping is available again. Moreover, the clusters' quality is 0.7, an acceptable value (Figure 9).

Figure 9. People at risk of poverty under cluster analysis

Source: personal contribution using IBM-SPSS software

The future economic challenges will affect the risk of poverty and social exclusion decreasing. The risk of poverty forecasting leads to the following results (Figure 10):



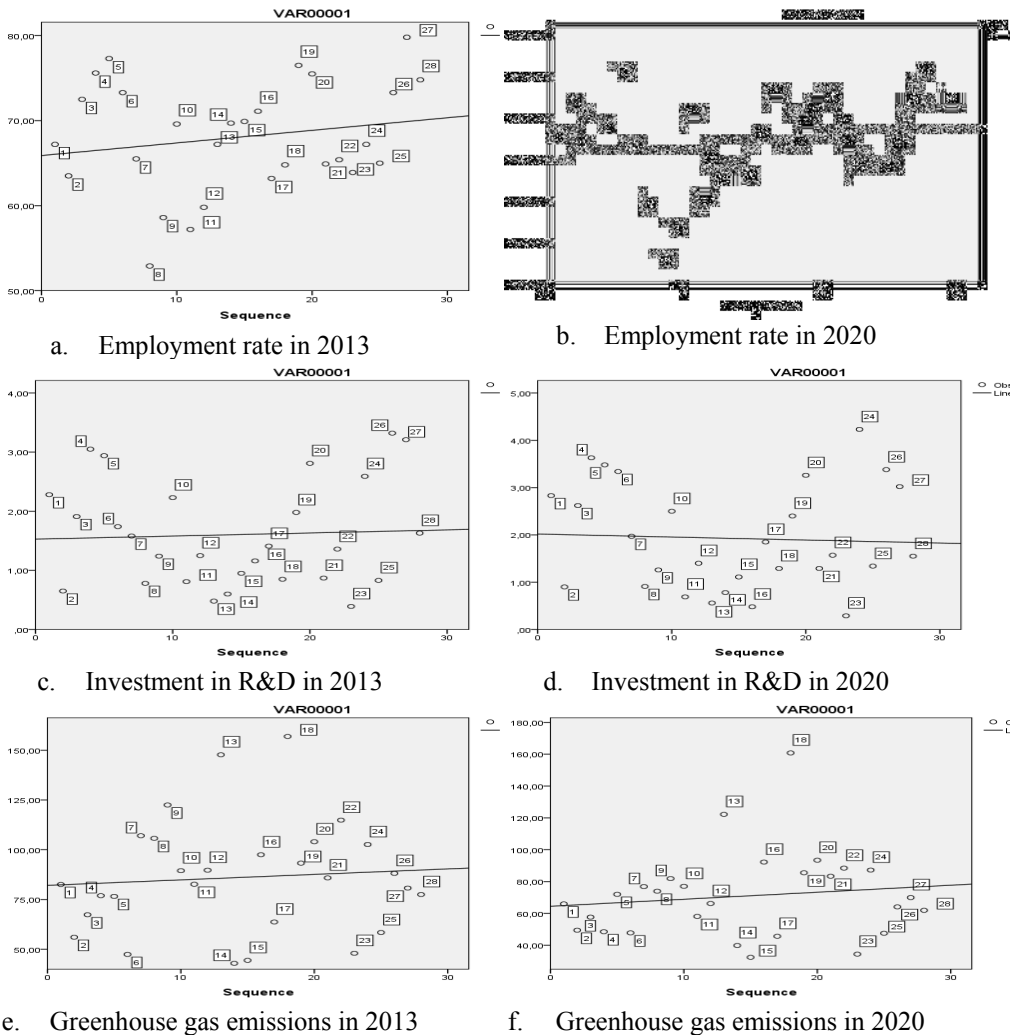
Figure 10. People at risk of poverty forecasting

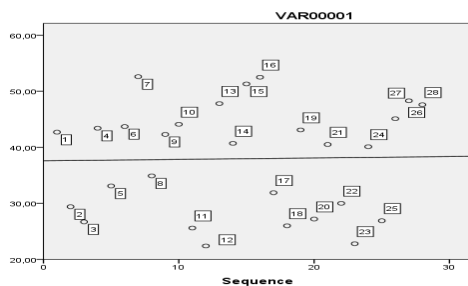
Source: personal contribution using IBM-SPSS software

3. Is 2020 a step to cohesion or to great disparities?

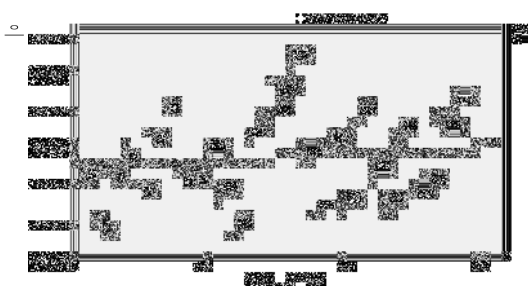
An intermediate conclusion of the analysis, available for all Europe 2020 Strategy's targets is that the Member States can be grouped constantly into two clusters, according to their socio-economic performances. This cluster approach allows analysis to quantify the disparities between Member States using regression. The first question is if these disparities increase or decrease in 2020. In order to obtain the best answer, the regression analysis for 2013 and 2020 is useful (see Figure 11).

Figure 11. Disparities in 2013 and 2020

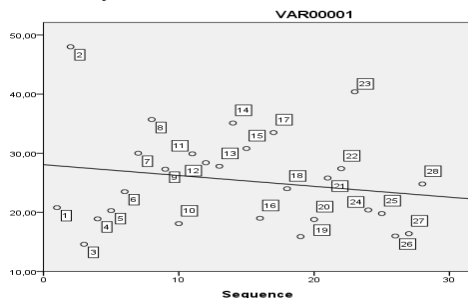




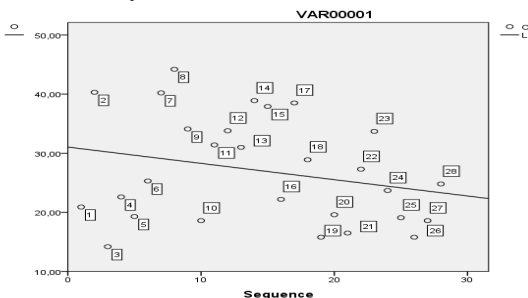
g. Tertiary educational attainment in 2013



h. Tertiary educational attainment in 2020



i. People at risk of poverty in 2013



j. People at risk of poverty in 2020

Source: personal contribution using IBM-SPSS software

The comparative analysis of the employment rates in Figure 11 leads to the conclusion that 92.86% of the two clusters' structure in 2013 remains the same in 2020. The same analysis leads to 100% in identifying the two clusters' structure for expenditure in R&D. The same ratio of 92.86% is available for the greenhouse gas emissions and tertiary educational attainment in both years. Finally, 96.43% of the two clusters' structure in 2013 is maintained in 2020.

Conclusions

The forecasted results related to Europe 2020 Strategy's goals are far away from those wanted. The disparities between the Member States will be the same in 2020, even greater. Moreover, the different individual economic and social performances led to the idea of dividing Member States into two clusters. We can talk about a divided EU, an EU with at least two development speeds. The idea is not new, but the future seems to support it again. On the other hand, there is not Member State able to achieve all Europe 2020 Strategy's goals in 2020. The need to another common strategy closer to the reality is greater and greater.

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THE RISE OF FAR RIGHT IN EUROPE: CHALLENGES AND CONSIDERATIONS RELEVANT TO THE EDUCATIONAL POLICY

Evaggelia KALERANTE*

Abstract: *The political situation formed across Europe on a political level with the rise of far right and the adoption of attitudes and behaviours representative of the broader acceptance of far right ideologies on a social level is the focal point of this paper. This issue should also be a consideration in terms of education so that an educational model reinforcing democracy and humanism is formed. Concentration is placed on the Greek educational policy aiming at suggesting interventions in the curriculum and the educational school reality, too. This is a period when an increasing number of individuals educate themselves for long years. Therefore, formal education encompassing Primary and Secondary education as well as lifelong education should be emphasized. As regards schools, democracy and humanism should be aligned to the school environment and the formulated juvenile culture. As regards lifelong education, the topics and content offered through seminars should be enriched with theoretical principles which are reinforcing to the association of learners with the democratic operation of society.*

Keywords: Greek educational system; democracy; humanism; school environment; juvenile culture; democratic society

1. Political theoretical formulations

The European political system is challenged by the dynamics of far right political parties, being a developing phenomenon across Europe. Greece forms a particular case study due to the political parties' restricted presence whereas the percentage of the far right party of "Golden Dawn" has increased over the past eight years. Citizens are affected in shaping corresponding attitudes and behaviours by the far right political discourse. During a period of acute economic crisis, far right political standpoints are underpinned and people's feelings of exclusion and marginalization are generated as they are deemed the "others" in the society¹. Thus, natives turn against immigrants and outdated ideological schemata about racial

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¹ See (indicatively) modern theoretical perspectives about diversified people and collectivities based on racial features, nationality or religion (Garcia, 2001).



superiority or inferiority become a propos². Meanwhile, throughout a period of confined welfare policies, far right political parties assume the role of the natives' protectors.

In the globalized societies, far right political parties put forward viewpoints about the nation-state as the only political cluster in contrast to globalization. The notions of "people" and "nation" are promoted in contradistinction to the broader conceptualization of the citizen as the citizen of the world³. The far right restricted viewpoints cancel ideologies about democracy and humanism. Anti-democratic standpoints are pinpointed with emphasis on totalitarian systems in which violence and irrational political operation become the dominant models of political expression.

Rivalry against immigrants is related to rivalry against Jewish and Muslims. Moreover, within the formulating conservative policy, far right political standpoints focus on the threefold of family, country and religion. Traditional stereotypes about women's inferiority, cancellation of their rights, their confinement to household duties and children care-taking are included in the family model.

Within the country model, the native population is underpinned as the dominant population. Moreover, homogeneity is the objective whereas diversity is deemed the failure of monitoring modern parties' policies. Religion is approached in political terms by which the religious content of Christianity is perceived along with the nation's dynamics. Thus, the social and political subjects' identities become powerful since roles and behaviors are aligned to policies of integration based on the traditional combination of country-religion⁴.

Within the European area, a cancellation of the policy of rights is observed toward a political model of shrunk principles and standpoints about the citizens' dynamic role and presence in a globalized environment. Both the reception of far right standpoints and tolerance across expanded population strata should be of primary consideration as far right viewpoints are spread, either explicitly or implicitly, across people's everyday attitudes and behaviors.

Nowadays, protection against globalization and the economic crisis becomes an underpinning ideology of the far right wing across Europe. Protection is interpreted as a selective distinction of groups to be protected in contrast to other groups to be excluded. In this respect, the criterion is centered round national, religious, political and cultural diversifications.

The present paper focuses on the role of education in Greece; that is, how the political capital can be formed within the educational environment, reinforcing democratic principles and standpoints⁵ so that bonds among citizens become powerful on the basis of co-operation and mutuality, without interfering and

² See (indicatively) about the action and dynamics of the far right party of "Golden Dawn" among the Greek youth (Kalerante, 2013b).

³ See (indicatively) about issues of political identity (Biesta, 2010).

⁴ See (indicatively) about issues of religion and the association between religious identity and nationalistic principles (Moore, 2007).

⁵ See (indicatively) about the formation of democratic principles and viewpoints in schools (Giroux, 2005; Noddings, 2013).



distinguishing ideologies tied to nationality, religion and culture. Within the formed political subversive situation, education arguably has its own discourse and assumes the responsibility toward political socialization in a humanistic educational program with emphasis on inter-cultural, harmonious co-existence and reinforcement of political rights⁶.

Within a period of economic crisis in which focus is placed on the financial paradigm, the educational policy should form a model of interpretation and understanding of the socio-political phenomena conducive to reinforcing far right political parties and their standpoints. Consequently, the structures and functionality of the educational system is reconsidered. The present paper focuses on specific proposals of political enhancement of the educated so that they, as citizens of globalized environments, define their political and social co-existence in equality terms⁷ with a parallel reinforcement of political participation⁸. This way, weaknesses of the economic system and political choices are no longer unnoticed. On the contrary, they generate the prerequisites for dialogue, deliberation and political change.

2. The political role of education

The educational policy in Greece could not stay intact from political swings to more conservative standpoints. The rise of far right parties in Europe should be interpreted as the weakness of the political system to confront the effects of the economic crisis. Thus, political parties were given the possibility to develop protective, political bonds with individuals and societies in every nation-state. The concentration on the nation-state and the consequent underpinning of unifying, cultural and religious features is tied to the formation of the notion of “citizen” in restricting terms, being the outcome of immediate reference to the nation-state.

In this framework, globalized principles of political humanism are cancelled along with the policy of rights. The Greek political system is found to embarrassingly observe the developments while citizens’ passivity, institutions and democratic system disdain are intensified. Within this political scene, the educational policy ought to engage with the subject’s political reconstruction, political socialization and elevation of humanistic principles and standpoints. This way, the relation of social subjects within an expanded globalized environment is enhanced.

⁶ See generally about intercultural issues and broader considerations about the effectiveness of methods and practices (Korn and Bursztyn, 2002).

⁷ See (indicatively) about policies towards the reduction of social inequality with emphasis on educational programs about equality and humanism (Green and Preston, 2008).

⁸ Quote the European Youth Week has already been completed (EYW2015) which commenced on 27/04. Mr. Tibor Navracsics, the delegate of Education, Culture, Youth and Sports met representatives of juvenile organizations to undertake active roles in the democratic society. The young show disbelief to European Union and decisions of the European institutions are not convincing.



This is, perhaps, an opportunity for education to assume an active role since it seems to be disdained as an institution within an expanded internet educational environment. The carriers seem disorientated and marginalized by the limited educational packages of knowledge and exams far off the broader political environment which is formed with idiosyncratic features and facts without integrated political elements from other socio-political areas.

The disdain of the political system is being observed as the voters' percentage is reduced in Greece, particularly their participation in pressing groups and collectivities. These are issues to be seriously considered by the Greek educational policy. Within the period of economic crisis and intense dependence on international financial centres and the corresponding institutions, the reinforcement of far right political discourse is observed instead of the reinforcement of leftist political movements. Within Secondary and Tertiary education, the juvenile population is observed to adopt attitudes and behaviours stemming from far right political discourse and the corresponding political practice.

The Greek educational policy should form an expanded draft of political socialization that should diffuse democratic political discourse to all grades through selected subjects and every day practice. The issue of economic crisis should be interpreted in political and social terms so that the dimensions are underpinned. At the same time, population groups such as immigrants and Jewish should not be incriminated and resolution of such issues based on far right political standpoints should be cancelled.

In the current globalized conditions, the Greek educational policy ought to contribute to enhancing the relations between Greece and other countries as well as the corresponding international organizations. This way, political solutions about the economic crisis could be promoted away from political rivalry within the nation-states and off far right political standpoints. The humanistic content ought to be elevated by the educational policy with emphasis on the harmonious co-existence of people, social equality, operation of the democratic system, integration of citizens into the political life to confront issues like poverty and racism⁹. The democratic function of deliberation and participation ought to be reinforced within the school community with viewpoints exchange and the development of a dynamic political discourse. This way, individuals could have their own discourse and promote democratic attitudes to resolution of issues by excluding the far right political discourse.

In this framework, the educational policy could contribute to forming an educational community in which students and teachers do not merely handle educational packages of knowledge toward exams. On the contrary, through the transformation of the cognitive environment they will choose knowledge conducive to understanding and elevation of humanistic ideals by underpinning functionality, the principles of equality and the value of life. At the same time, they will be able to promote principles that could correlate prosperity and progress of

⁹ See (indicatively) about anti-racist policies with emphasis on enhancing democracy (Pollock, 2008).



collectivities in which individual course will not be isolated from collectivities. On the contrary, people will be able to enhance their relations within the social environment.

Nowadays, there are many lifelong learning programs focusing on labour market. However, they could integrate elements of political socialization provided that issues on democracy and humanism are put forward by the educational policy. Within the historic moment in which individual progress is interpreted through success in examinations to enter University and the labour market, education should set further objectives towards individual prosperity along with the democratic operation. This way, the humanistic democratic educational content, in economic terms, could be related to the right in labour as a political prerequisite and to social equality as a political practice.

3. An organizing model of cognitive domains

A re-organizing model of cognitive domains for Primary and Secondary Education could be based on the reformation of the Curriculum, namely the functional interventions in the structure and content of material. In this sense, the content of subjects tied to the formation of political and social identity, like History and Religious Affairs¹⁰ could be investigated. The afore mentioned subjects are taught in all school grades, apart from University, and only students of philological and pedagogical faculties are trained to teach them.

In this paper, reference is made only to organizing History in Primary and Secondary Education, as History and Religious Affairs conceptualize the Greek identity, namely a framework by which students perceive and interpret the notions of the country and social co-existence. In globalized conditions and after the integration of Greece into the European Union, the content of the afore-mentioned subjects has not changed.

The instruction of Religious Affairs, in particular, focuses on a specific doctrine, namely the instruction of principles tied to the orthodox Christian doctrine. Thus, students of both grades are familiarized with these principles. Despite the fact that there is a large Albanian immigrant community in Greece and, consequently, a large number of Albanian students in schools, issues on diversity and multiculturalism have not been taken into account, especially for students of a different culture. At the same time, the strict religious context does not facilitate native students to familiarize with other religions. In other words, the “other” is not perceived through their different religious identity.

The combination of Religious Affairs and History results in a strict Greek-centred historical model against the promotion of democratic principles. As a result, racism is underpinned, ethnocentrism is enhanced and ideologies about the superiority of the Greek culture compared to others are reinforced. History, in both educational grades, emphasizes the Greek civilization and the Greek heroic actions

¹⁰ See (indicatively) about the function of History and Religious Affairs in Greek schools with emphasis on the formation of the Greek identity (Kalerante, 2013a).

against various conquerors. Sacrifice for the country and heroism are promoted as dominant values and give meaning to actions and choices within a historic continuum which expands from antiquity until today. The elevation of classic antiquity is promoted as a dynamic differentiating element in comparison to others and not as a sign of an evolving civilization with emphasis on its contribution to the universal cultural heritage.

The distinction between Greeks and the “others” is further reinforced through the description of historic events without reference to other sources, namely different readings of History. Therefore, both Religious Affairs and History are conducive to forming the perception of “we” in contrast to “others” making, this way, the perception of concepts rather difficult, especially those ones tied to co-existence, solidarity, humanism and internationalism which are actually concepts tied to democratic organization and operation. Theoretically speaking, the young’s perception about the social, political and historic environment is confined due to a sterile ethnocentrism which impedes the formation of collaborative democratic conceptions within an international environment.

Based on the afore-mentioned realizations, it is suggested that History be maintained with a different content which would support the bonds of nation-state along with those of a globalized socio-political environment. This proposal encompasses a balanced re-writing of the books in which elements of the Greek civilization and the evolution of the Greek state will be illustrated along with the presentation of globalized events tied to the evolution of cultures and the dynamic process of societies modelling with emphasis on the human being both as a personality and citizen. The evolving organization of nation-states, international organizations and the policy of rights will also be presented in political terms. Man, civilization and citizen will be interpreted through relevant fields of a common course through underpinning ideologies of equality and humanism.

Religious Affairs can be modified to religiology and its content could unfold the evolution of religions, the illustration of different doctrines as well as issues from “holy books” of the various religions. Special emphasis should be placed on the comparative approach of doctrines so that common thematic elements are highlighted to concepts like love, equality, humanism, tolerance and harmonious co-existence. In this framework and provided that Religious Affairs is taught in all grades, History could function in a supplementary manner toward the formation of a moral attitude and behaviour. In other words, the evolution of civilization, the operation of democratic regimes, the highlighting of common issues addressed by nation-states in direct association with the development of democratic institutions could be combined with ethics and religious principles and doctrines and form the basis on which principles and standpoints are interpreted. The common core of both subjects could be the highlighting of the advantages of a common course of all people through the historic and religious narrative conducive to reinforcing the bonds of co-existence and acknowledgment of the other.

It seems that intercultural education can not be confined to piecemeal actions of merely exchanging viewpoints about different cultures. It should be integrated into the subjects taught in both grades so that certain attitudes and behaviours are



formed toward the rejection of far right political discourse and the consequent racist ideology.

During a period when the rise of far right parties is obvious, lessons on democracy should be reinforced with specialized thematic units emphasizing democratic principles and standpoints. A subject like Citizenship Education taught in Primary Education could function in both educational grades with enriched content on democracy and humanism. Some of its thematic units could be the evolution of democracy, the necessity of political participation through the citizens' active participation. The democratic function could be promoted with emphasis on the nation-state on condition that the citizen is acknowledged based on their relation with the nation-state. In this sense, immigrants will not be deemed the "others" of the system but citizens with equal rights.

The globalized environment could be understood by students within the evolving process of the policy of rights and the dynamics of nation-states, collaborating toward an expanded draft of dynamic population mobility. In this respect, immigrants would not be considered as a distinct phenomenon but rather a situation to be interpreted. Thus, globalized problems ought to become a *propos* with emphasis on their effects. For example, poverty, capitalist conditions, the enfeebling policy of rights as well as people's insecurity and uncertainty should be conceptualized within the context of exclusion, mainly for lower social classes and immigrants should not be perceived as part of the problem but rather victims of social and political choices.

As regards interdisciplinary and cross-curricular approaches, literature and art could particularly contribute to students' cultivation, their familiarization with democratic principles and the reinforcement of moral attitudes and choices. In this sense, discourse and aesthetics could contribute to identity formation that could include elements of civilization and could value love, devotion and mutuality in a struggle for equality, social prosperity and humanism.

Within the current economic crisis period, the curriculum should include a subject on professional orientation so that each and every individual is assisted in making their economic choices and understanding economy as a whole. Different skills and competences are conducive to shaping an economic environment both on national and globalized levels. The concepts of economy are clarified and interpreted while economic schemata and models are interpreted. Within this framework, immigrants are not deemed the "others" but rather contributors to economic development. Disdain of immigrants was maximized by the economic crisis. Therefore, specific ideology is necessary to subvert the existing viewpoints. A subject on professional orientation could underpin the immigrants' contribution to nation-states and their role in economic development along with their social work toward the support of welfare policies.

As foretold, modern pedagogical principles are concentrated on cross-curricular and interdisciplinary conducive to promoting and reinforcing democratic principles. An expanded draft on democracy is imperative and should combine principles and standpoints of various subjects. This way, narratives from other subjects are included in a paradigmatic discourse on democracy. The cognitive



content of subjects could be aligned to everyday school life in which monitoring and guidance toward organizing everyday life of both students and teachers points to a different perception about the democratic function of school and the familiarization with the basic democratic function of society.

4. An organizational model of everyday life

Organizing a progressive democratic curriculum could be achieved by changing approaches about the content of subjects. a curriculum that is included in the paradigm of democracy, encompasses units about a nation-state's democratic organization and operation within an internationalized environment of re-classifications and balance that should stay away from cancelling democratic achievements. On the contrary, within an economic crisis period and the rise of far right wings, education could work toward the achievement of reinforcing democratic attitudes with emphasis on the weaknesses of functional bonds, carriers and relations.

The policy of A. Papandreou's first government between 1981 and 1985 basically subverted the policies of former governments through a socialist draft and the legislative draft on the democratic organization of the students' communities with increased participatory responsibilities and monitoring of school democratic operation. This institution has been enfeebled since then and students' communities both in Primary and Secondary Education do not operate properly. The same is the case in Tertiary Education with students actively participating in various activities. The decline of institutional instruments is interpreted as a deficit because students are not familiarized with democratic principles, organization and operation.

As regards the period of economic prosperity and with emphasis on consumption, consuming models were included in the culture and social values were formed based on access to markets. The economic crisis period along with the consequent rise of far right wings is perhaps suitable to investigate the disdain of democratic institutions across the Greek society. According to the model proposed student communities should be activated in the sense that student participation in voting their representatives should be obligatory. Moreover, responsibilities of instruments should be explicit and students should participate in teachers' councils, parents' councils as well as broader collectivities through their representatives. Students' communities could be the areas where they communicate, exchange viewpoints and opinions, propose solutions to issues deriving both in school and the broader environment. This way, dialogue and deliberation are reinforced so that the young population get used to the process of deliberation and dialogue as parts of the citizens' society.

In this context the immigrant identity does not generate differences or other stereotypical identities regarding gender, since the concept of citizen is underpinned as a unifying group of people shaping common goals. It is evident that in the Greek educational system a number of other institutions is also disdained, namely teachers' councils and syndicalist unions. This disdain has gradually contributed to the citizens' marginalization and overall disdain of democratic



functions in a society. On the micro-level, the operation of institutional instruments in the educational environment will contribute to reinforcing citizen identity on the basis of interpretations that would include collaborative structures of action and expression. Instruments' processes will be monitored, issues will be made known and emphasis will be placed on the policy of rights.

Furthermore, negative phenomena in schools will be utilized as issues for deliberation. The flowing democratic political discourse will contribute to enfeebling far right standpoints and perceiving the necessity of a different society in terms of organization and operation. Nowadays, democracy is being challenged since no concentration has been placed on the function of principles and standpoints. The educational system allowed the emergence of anomic performance, enfeebling of political discourse and democratic expression. It is noteworthy that education is responsible regarding phenomena of anomy, political immorality, the rise of far right wings and cancelling of democratic institutions.

On the macro-level, a gradual shift is made from the democratic function of institutional instruments to the reinforcement of democratic operations to broader areas. In this respect, a systematic perception is conducive to reinforcing forms of interconnection. Thus, verbal discourse on democracy which encompasses principles and ideas on humanism and social equality could be the dominant reference point.

New technologies and new communication models included in juvenile culture¹¹ can contribute as instruments to promoting democratic discourse¹². School sites could function as areas of consideration, diffusion of ideas and illustration of issues and considerations.

Textual discourse from various political areas sparks off dialogue. During a period of ideas spreading, information networks are activated by schools and the contact between students and teachers is expanded on cognitive fields. Far right viewpoints are enfeebled when interpreted and made known to the educational environment with simultaneous reinforcement and underpinning of democratic standpoints. Active political issues are illustrated on sites toward further consideration and dialogue. Internet connection among various schools both on national and global levels creates the prerequisites of different perception of political operations as well as the individual's placement as citizen within a broader socio-political and cultural environment.

Within the classroom and for each cognitive module, across all educational grades, rich insights and information supplement the content of books taught in schools based on a selected policy of promoting and reinforcing the democratic dialogue. As foretold, cross-curricular and interdisciplinary approaches contribute as instruments and through the Internet, to information knowledge and communication channels acquisition from a globalized area of ideas distribution and organization.

¹¹ See (indicatively) about the characteristics of juvenile culture and networks of relationships that have been formed (Brown, 2013; Mueller, 2007).

¹² See (indicatively) about communication systems formed through new technologies and their association with juvenile culture (Salkowitz, 2010).

Both teachers and students are informed through communication networks¹³. Yet, the difference lies in that focusing on democracy enables them to observe social, political and cultural issues not merely as the audience but rather as examiners. In this respect, each fact is interpreted on the basis of various theories conducive to sparking dialogue and promoting argumentation. The everyday life model is obviously correlated with the content of modules with emphasis on democracy through modern communicative tools which highlight facts and contribute to the shaping of theory. Schools become laboratories of critical thinking processes both on institutions operation and ideas diffusion. The school area hosts various events dedicated to democracy. Poetry, literature and art are activated to generate a different narrative about life and social co-existence. In all school areas there are proper frameworks to host students' considerations and current issues of their interest. Prints and sites co-exist in order to enhance the channels of communication and activate students, teachers, parents and other collectivities toward certain issues of consideration.

All in all, the school democratic operation along with its institutional instruments on all levels will contribute to shaping juvenile culture. The latter would include equality principles and acknowledgement of the other through active political participation and action to cancel anti-democratic principles and standpoints. This dynamic framework of organizing and operating education in different terms will gradually lead to a changing political environment because the young, as citizens, will be able to manage democratic political capitals through the modification of new perceptions about the role and dynamics of social subjects. The opening toward collectivities as well as participation and action are obviously the solution to creating emotional conditions that would prevent introversion or negative feelings. This could be achieved by activating positive feelings through argumentation, viewpoints exchange and social contact.

Conclusions

Education should be included in the welfare policy about human beings and citizens who will regard themselves as member of a broader humanistic democratic society. Moreover, the technological forms utilized by the young through Internet communication should boost toward the modelling of communicative discourse which would exclude far right policies as the latter also make use of communication networks.

It is noteworthy that there is a necessity for a complete draft on democratic education through underpinning and highlighting actual democratic issues focusing on the composition of the political subject. The latter is supposed to feel secure within an institutional framework of protection being the outcome of the policy right operation. Should the far right political area focus on forms of exclusion, education must highlight inclusion and corresponding forms of political and social inclusion. It is imperative that

¹³ See (indicatively) about communication networks and political identity formation (Collins, 2009).



in the expanded draft on democratic political socialization, all educational carriers and pressing groups point toward weaknesses and make corrections. This way, inter-democratic communication could be established among European states based on a policy of viewpoints exchange for applied programs to reinforce democracy.

Accepting failure is a prerequisite to generate a democratic draft on education organization because the ongoing dynamics of far right parties is also considered a failure of education. Moreover, the issue of political socialization and co-existence in the political environment as well as the content of cognitive packages should be re-examined. Even though focus is placed on the Greek educational system, it is estimated that transfer to the micro-level of the Greek educational policy could be conducive to broader considerations about the formation of a complete educational draft on democracy and humanism. This is based on the connection of the states' educational policies so that good practices are announced and a propos and educational systems are formed as open educational models which get feedback.

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BEYOND BRICS – AN EMERGING MARKETS ECONOMIC ANALYSIS

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Abstract: *The rise of the BRICS – Jim O'Neill's acronym that stands for Brazil, Russia, India, China and South Africa defining the flagship nations of emerging economies – it's not the only economic success story of the emerging markets. In fact the five top emerging markets economies just started a trend, set a course for others to follow. The Next Eleven, as Goldman Sachs named the group of economies which have the highest potential of becoming world's most important economies of the 21st century, are well aware of their advantages and downsides in the new global economic environment. The EU as a global player needs to cope with this rise of new poles of economic strength in order to maintain its economic powerhouse. The purpose of this paper is to analyze the rise of the Next Eleven from the EU perspective in terms of trade openness, macroeconomic stability and economic growth. The paper is divided into sections: Introduction, Literature review, Current trends in the world's economy, Globalization Era: New poles of economic growth, Risks and opportunities for EU economic growth in the context of the new rising emerging markets, Current global economic-financial crisis implications on EU and The Next Eleven a final section with some Concluding remarks. The findings provided by this working paper are that European Union is facing major changes in the world's economic environment and European economies are forced to adapt fast in both contexts of current global economic crisis and the rising importance of emerging markets. Moreover, the Next Eleven are a proof of the rapid changes in the global economy that affect not only the major Western economies but also the major economies of the newly developed nations, such as the BRICS. This phenomenon is part of the bigger picture – the globalization process of global economic stage.*

Keywords: EU; emerging markets; BRICS; The Next Eleven; globalization

Introduction

The rise of the BRICS – Jim O'Neill's acronym that stands for Brazil, Russia, India, China and South Africa defining the flagship nations of emerging

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economies – it's not the only economic success story of the emerging markets. In fact the five top emerging markets economies just started a trend, set a course for others to follow. The Next Eleven (N-11), as Goldman Sachs named the group of economies which have the highest potential of becoming world's most important economies of the 21st century, are well aware of their advantages and downsides in the new global economic environment.

The Next 11 economies are a heterogeneous group of countries in which are included the following nations: Bangladesh, Egypt, Indonesia, Iran, South Korea, Mexico, Nigeria, Pakistan, the Philippines, Turkey and Vietnam. At the end of 2011, the 4 most prominent countries in the Next 11 – Mexico, Indonesia, South Korea and Turkey – made up 73% of all Next Eleven GDP. BRIC GDP was \$13.5 trillion, while MINT (Mexico, Indonesia, South Korea and Turkey) GDP at almost 30% of that accounting about \$3.9 trillion. The term MINT was originally coined by Fidelity Investments, a Boston-based asset management firm, and was popularized by Jim O'Neill (Fraser, 2011). The Next 11 seem to have in common high growth potential both in economic and demographic terms. On the other hand European Union it's an economic powerhouse with solid economies and sustainable economic growth. In 2013, the EU economy accounted for 23.5% of world nominal GDP. With a combined GDP of \$18.5 trillion, the EU is the world's largest single common market, foreign investor and trader. The Canadian Trade Commissioner Service, one of the most important EU's trading partner concludes in one of its reports that

“because of the depth of the crisis and persistent structural issues in some Member States, economic recovery in the EU has been slow and continues to be uneven, with high unemployment in countries most-affected by the crisis such as Greece and Spain” (The Canadian Trade Commissioner Service).

European Union is the largest trading partner for all developing countries. The economic ties with every single country in the BRICS or Next 11 are crucial for both parties. “The rise of the rest” as Fareed Zakaria envisioned this emergence of developing nations is an important part of the world's economic balance due to the fact that during the current economic and financial crisis these countries accounted growth – opposite to the slowdown registered by the EU's economy taken as a whole. European Union has in its own backyard a set of countries considered to be emerging markets, especially the ones freshly acceded to its structures – Poland, Czech Republic, Hungary, Slovakia, Romania, Bulgaria and the Baltic states (Latvia, Estonia, Lithuania). These economies known under the entitling of “Emerging Europe” form a group of developing countries which struggle for recognition on the international arena. The former transition economies experienced growth rates before 2008 – the year economic crisis hit hard the region of Central and Eastern Europe – that rivalled with the ones of the Next 11. The economic integration process and the strict policies of the EU prevented a collapse of the financial system in the



region but on the global scale even though the entire EU was confronted with a slowdown of growth it succeeded to contain the effects of the crisis.

1. Literature review

What makes “the BRICs special is that they have the scale and the trajectory to challenge the major economies in terms of influence on the world economy” (O’Neill *et al.*, 2005). As Goldman Sachs economists argue, the BRICS influence in world’s economy is rising in the context of the international current crisis which is yet far from a long-expected end. Even though the paper in which they are introducing the new trend in developing nations – “How solid are the BRICS?” – was written 10 years ago, their thesis is still popular and intriguing.

As pleading in favour of the new developing nations, they predict an emergence of new poles of growth in different parts of the world coming mainly from the developing nations and newly industrialized economies. Their grouping has as starting point macroeconomic indicators such as GDP growth, income per capita and population growth.

Goldman Sachs economists ran projections of growth for each of the economies they focus their attention on the BRICS and the Next 11. Their analysis concluded that “by 2050, the largest economies in US Dollar terms will look very different from today” (O’Neill *et al.*, 2005). According to their projections in terms of GDP growth only Mexico, Indonesia, Nigeria and South Korea could overtake Italy and Canada by 2050, but the other N-11 members do not catch up with the current G7 group. On a global basis the two economies that could make a difference are only Mexico and South Korea. The rest of them could contribute only in a small amount to world’s economy growth and the process of catching up will be difficult. In terms of income per capita South Korea, Mexico and Turkey could overpass many of the G7 countries and could list themselves amongst the countries with high income per capita. South Korea is already a country listed as a high-income per capita economy with a US \$25,920 in terms of GNI (Gross National Income) per capita in 2013. This classification is made by the World Bank and it’s a useful tool in reflecting the average income of a country’s citizens. Knowing a country’s GNI per capita is a good first step towards understanding the country’s economic strengths and needs, as well as the general standard of living enjoyed by the average citizen. A country’s GNI per capita tends to be closely linked with other indicators that measure the social, economic, and environmental well-being of the country and its people. Table 1 – GNI per capita, selected countries shows South Korea as a true competitor on a global scale in terms of sustainable growth. Since 1990 United States and European Union doubled their numbers of GNI per capita from US \$24,530 in 1990 to US \$53,470 in 2013 for US, respectively from US \$14,762 in 1990 to US \$35,530 in 2013 for EU. In the same period of time South Korea quadrupled its numbers from US \$6,480 in 1990 to US \$25,920 in 2013. Amongst the BRICS, Russian Federation has the highest GNI per capita



of US \$13,850 in 2013, followed by Brazil with US \$11,690. In the classification made by the World Bank in the high-income group of countries besides the United States and most of European Union's Member States out of the emerging economies only the Russian Federation and South Korea fulfil the requirements. Brazil, Turkey, Mexico, South Africa, China and Iran are considered to be part of the upper-middle-income group, while Indonesia, Philippines, Egypt, Nigeria, Vietnam, India and Pakistan are included in the lower-middle-income group of economies.

The Growth Environment Score (GES) is a useful tool developed by Goldman Sachs economists in order to assess the power of emerging economies to achieve the economic growth everyone is expecting of them. GES is using 12 sub-indices divided into five basic areas: Macroeconomic stability (Inflation; government deficit; external debt); Macroeconomic conditions (Investment rates; openness of the economy); Technological capabilities (Penetration of PCs, phones; internet); Human capital (Education; life expectancy) and Political conditions (Political stability; rule of law; corruption). According to their calculated index "Korea is the standout, highlighting how different it is to the rest of the group. But Mexico and Vietnam (and to a lesser extent Iran, Egypt and the Philippines) also score relatively well currently in terms of growth conditions. At the other end of the spectrum, Nigeria, Bangladesh and Pakistan all score poorly." (O'Neill *et al.*, 2005).

The results of the score are presented in Figure 1 – GES Index and Figure 2 – Convergence process GES Index. The figures show how N-11 countries and the BRICS are performing according to the indices mentioned above. The countries that have the highest potential of convergence are South Korea, China, Mexico and Vietnam and the ones with the lowest convergence are Pakistan, Bangladesh and Nigeria. The results are not unexpected and they come in line with other performances of these countries in the past 20 years. In 2007 Sandra Lawson, David Heacock and Anna Stupnytska laid out the performances of the Next 11 in terms of energy, urbanization, infrastructure, health and technology. The most important features are:

"The N-11, which comprise 7% of the world economy, account for 9% of the world's energy consumption and an equal share of global CO2 emissions [...] the N-11 are already highly urbanized [...] Some of the N-11 (Mexico, Philippines, Indonesia and Turkey) are attractive destinations for infrastructure investment [...] The UN projects that life expectancy rates in the N-11 and the BRICs will converge around the current G6 level (75 years) by mid-century [...] The explosive growth story in mobile phones is spreading to the N-11, with the poorest countries posting triple-digit growth in recent years". (Lawson, *et al.*, 2007).

Their assessment project high potential for these countries and European Union should keep up with these changes in international environment as a whole.

As Josef Janning concludes in an article for Deutsche Gesellschaft für Auswärtige Politik "a significant part of Europe's economic future is tied to the

development of these countries and to the ways and means by which they will define and secure their role in world affairs. Instability, insecurity and conflict within and around BRICS countries will profoundly impact on Europe with few options for EU leaders to shape events, other than to engage early and by using the assets Europeans hold – economic interdependence and trade, technology and governance skills” (German Council on Foreign Relations). But there is no point in being afraid of this rise of the new poles of growth, as the same author strongly reveals.

In 2014, the newly elected President of the European Commission, Jean-Claude Juncker stated in a report the goals for his presidency. Amongst others he stated that “we need a stronger Europe when it comes to foreign policy [...] we need better mechanisms in place to anticipate events early and to swiftly identify common responses. We need to be more effective in bringing together the tools of Europe’s external action. Trade policy, development aid, our participation in international financial institutions and our neighbourhood policy must be combined and activated according to one and the same logic” (Juncker, 2014). This is a clear vision of the near future in which the President of the Commission acknowledges the fact that “even the strongest soft powers cannot make do in the long run without at least some integrated defence capacities” (Juncker, 2014).

2. Current trends in the world’s economy

The complexity of today's global economy, with a changed cast of actors and an expansive arena is suggesting a shift to a multipolar structure in which many players have to interact with each other. In this regard, a multipolar structure could be considered the logical replacement of the centre-periphery model. However, the current theoretical framework is unsatisfactory for a number of reasons. First, it does not relate to the question of how power is distributed. Secondly, it implicitly assumes that economic power is correlated with the size of the economy of a single country, using real or potential size of GNP (Gross National Product) as a proxy of economic power. Third, the nation state is used as a reference unit in the global distribution of economic power. The reasoning in terms of national economies provides a good visual representation, but today it is inadequate because it ignores the complexity of economic relations (Subacchi, 2008).

“Generally, in literature, the concept of power is widely used in the field of International Relations, both for the analysis of relations between states, as well as for defining the external policy and conduct of states seen as actors on the international stage, starting with Thucydides, Machiavelli, Morgenthau, Mahan, Clausewitz, Sun Tzu and continuing to contemporary researchers such as Baldwin, Gratzke, Waltz or Cohen. There are several ways in which power may be expressed, for example it may represent: a measure of the degree of influence or control that an actor uses in order to achieve specific goals and expected results; the way in which an actor may



decide or influence the course of events or issues management on the international stage; an ability to control the resources or capabilities or a status that some states or actors possess and others do not” (Simionov, 2014).

Stockholm International Peace Research Institute is making an annual report of measuring international power in terms of population, surface, GDP, GDP per capita, economic growth, military expenditures, military capabilities, and share in the UN budget. China tops the list, with India and Brazil in international power hierarchy. Other countries (such as Mexico, Iran, Pakistan, Indonesia and South Africa) are on the waiting list or the „second” one. Among them, it is important to distinguish between *soft power* and *hard power*, according to the resources used: military, economic, diplomatic or cultural. In line with this, apart from the so-called BRIC (Brazil, Russia, India and China), whose economic base is, other emerging powers with global influence can be identified: in terms of hard power, also known as military power – Pakistan (the only nuclear power in the Islamic world) and Iran (a potential nuclear power) in terms of economic weight – Mexico and South Africa and, for reasons of population – Indonesia, Pakistan, Bangladesh and Nigeria (Table 2 – Measuring global power).

The increasing importance of emerging markets in the global economic landscape is no longer a futuristic idea but a measurable fact. Sustained strong economic growth in the N-11 countries is also creating new consumer markets that can be targeted by businesses.

3. Globalization Era: new poles of economic growth

The N-11 emerging markets have features in common that are believed to single out their high economic potential: all have large and growing populations (between 1980 and 2008, population growth was highest in Pakistan at 110.8%, with the lowest being in South Korea, with 28.4% period growth; of the N-11 countries, Indonesia had the largest population with 228.9 million people, while South Korea had the smallest at 47.6 million); Mexico had the highest sum of private final consumption expenditure, totalling US\$567 billion and Vietnam had the lowest, at US\$36.8 billion; all 11 countries demonstrate population growth rates above those of Western developed economies, indicating greater consumer market potential over the medium term.

While the N-11 countries share certain characteristics, they are not at the same level of economic development. The N-11 countries can be categorized in two different ways: *developing economies* and *newly industrialized economies*. These are included in the emerging economies, but the latter have greater industrial capacity and are typically beginning to export heavy manufactured or refined products, while the former are still largely reliant on primary exports, with some industrial capacity. Typically, developing economies have lower standards of living than newly industrialized economies. Of the N-11 countries, Bangladesh, Iran, Nigeria, Pakistan and Vietnam can be categorized as



developing economies, while South Korea can be categorized as newly industrialized economy. South Korea is the only N-11 economy that could be categorized as a developed economy, owing to its high level of industrialization and relatively stable macroeconomic fundamentals. South Korea is a predominantly technological state, exporting manufactured goods and services expertise. By contrast, Bangladesh is an exporter of primary goods while Nigeria is an oil exporter and an exporter of lower-level manufactured goods (Euromonitor International, a).

These economies have contributed around 9% of global growth over the last few years and could reach two-thirds the size of the G7 by 2050. All have the potential to grow at around 4% annually over the next 20 years. Mexico and Indonesia have the potential to rival all but the largest of the G7, and Nigeria, South Korea, Turkey and Vietnam might all overtake some of the current G7. Although much of the growth of these economies is rising from natural resources such as oil and increasing domestic consumption, the economies of some, such as South Korea, are already competing in many global sectors; all have ambitions to build a critical mass of globally competitive firms in key sectors (asaecenter.org).

Internal and external key factors will definitely influence the growth perspectives in these countries as new growth poles: demand from key export markets (United States and China); stable political environment (the most stable ones South Korea, Vietnam and Mexico); domestic political events may also restrict growth prospects (political instability in Pakistan and Bangladesh, terrorist groups in Indonesia, the Philippines, Nigeria and Turkey) and shifts in global commodity prices (oil price – most of them are oil exporters).

4. Risks and opportunities for EU economic growth in the context of the new rising emerging markets

“The rise of emerging markets has been perhaps the defining feature of the global economy this century. In 2000, emerging markets as a whole accounted for just 37% of global GDP (in Purchasing Power Parity terms); in 2013 this figure is expected to reach 50%. Even as developed economies recover from the recession, and emerging markets enter a period of slower growth, global economic growth will continue to be strongly influenced by emerging markets” (Euromonitor International, b). This assessment made by Euromonitor International highlights the growing influence of the emerging markets in global economy altogether with their key features that the developed countries should take into consideration. EU should cope with these changes in global environment and perceive them both as risks and opportunities to expand its own influence in the emerging markets.

Recently the emerging markets have started to use heavy measures of protectionism in order to defend their domestic markets. “The EU trade’s body said 154 new tariffs and restrictive measures have been pushed through over the past year while virtually none has been abolished. This violates a promise by the



G20 bloc of leading powers to dismantle barriers before they become embedded in the global system.” (Evans-Pritchard, 2013)

These abuses do pose a threat to the global recovery from the financial crisis and are promoted not only by the large regional powers such as the BRICS economies but by other emerging powers as well – Indonesia, Argentina and South Korea (Figure 3 – Total protectionism measures by country). “Countries are using every trick to keep goods and services out, going far beyond from tariffs and fees. These include licensing barriers, technical regulations, procurement rules and internal stimulus measures that distort competition.” (Evans-Pritchard, 2013) Trade barriers have always been a measure countries would fiercely use in order to keep internal industries on the floating-line. Due to the fact that emerging markets are net exporters of primary goods these measures do not come surprisingly although they are strongly condemned by the WTO (World Trade Organization) itself and could set the way to an “uncontrolled protectionism”.

European Union is known to be the world’s largest exporter and importer and a major trade partner for all emerging markets thus having a strong stance in international trade flows. The intra-trade between the emerging markets it’s on the rise as well.

“Exports from advanced economies would grow at a more subdued pace. Most industrialized nations tend to sell the bulk of their goods and services to other advanced economies, in which demand is set to be weak in the coming years as these nations struggle to recover from the global financial crisis.” (Jones, 2013).

The same author highlights in its article the fact that “facing competition from lower-cost producers in the emerging markets, exporters from the advanced economies would need to increasingly focus on high-technology sectors, where they can still command a competitive advantage.” (Jones, 2013).

This represents one of the major challenges for the European Union – the need to focus on the high-technology sector in order to sustain competitive advantages against the copycat practices and the shift from basic commodities (raw materials exporters) trading towards high-end sectors such as chemicals and pharmaceuticals (Figure 4 - Growth of high- and medium-high-technology exports, 1997-2007). South Korea, Turkey and Indonesia stand out of the Next-11 succeeding in switching towards medium-high-technology exports between 1997 and 2007 as data from OECD shows in Figure 4.

5. Current global economic-financial crisis implications on EU and The Next 11

In the past decade European Union strengthened its status as an economic powerhouse in terms of trade and international capital flows. In international forums it’s perceived as an important voice.

“EU action at the WTO is characterized by power rather than by leadership. In international negotiations the EU is generally seen as a rigid and

conservative actor, constrained by the time-consuming procedures for garnering support from 28 Member States and by the institutional complexity of its policy-making apparatus. The period 1990-2010 is characterized by a growing internal coherency but a shrinking external influence of the EU in the world” (Euro Broad Map).

Although its internal market makes it the largest trader taken as a whole its influence on the global arena it’s perceived more like a rigid colossus due to its numerous regulations.

“The world economy reached only subdued growth of 2.1% in 2013. While most developed economies continued to grapple with the challenge of taking appropriate fiscal and monetary policy actions in the aftermath of the financial crisis, a number of emerging economies, which had already experienced a notable slowdown in the past two years, encountered new domestic and international headwinds during 2013.” (United Nations, World Economic Situation Prospects, 2014).

The financial and economic crisis of 2007 had major impact not only on developed economies but also on the emerging ones. Financial crises in general tend to affect more emerging markets than advanced economies. Prospects of growth in exports are projected to 5.1% in 2015 showing a slow recovery compared with the past years.

“Some signs of improvement have emerged more recently. The Euro Area has finally come out of a protracted recession, with gross domestic product for the region as a whole starting to grow again; the economy of the United States of America continues to recover; and a few large emerging economies, including China, seem to have at least stopped a further slowdown or will see accelerating growth. World gross product is forecast to grow at a pace of 3.0 and 3.3% in 2014 and 2015, respectively.” (United Nations, World Economic Situation Prospects, 2014).

The ATKearney Global Economic Outlook also highlights that “the global economy is finally beginning to stabilize with prospects of average annual growth of 3-4% in 2014-2020.” (ATKearney, 2014) According to the same institute the Eurozone will grow only 1% this year with the help provided by the expansionary monetary policies taken by the European Central Bank that should stimulate economic activity. However, financial regulations are still expected as well as the continuity of structural reforms in the other Member States at the periphery of Eurozone. In the emerging markets, we talk also about slowdown but their growth is projected around 5% in the next 5 years. Out of the Next-11 the institute foresees a very high expansion of growth in the Philippines and Mexico due to a numerous reforms that have unlocked these countries growth potential.



Conclusions

European Union is facing major changes in the world's economic environment and Member States economies are forced to adapt fast in both contexts of current global economic crisis and the rising importance of emerging markets. The emerging economies pose both risks and opportunities for the EU in terms of trade and international investment flows. Besides the known BRICS who not so long ago use to think they are the 'new kids on the bloc' other poles of growth emerge from the third world. Moreover, The Next Eleven (Bangladesh, Egypt, Indonesia, Iran, South Korea, Mexico, Nigeria, Pakistan, the Philippines, Turkey and Vietnam) are a prove of the rapid changes in the global economy that affect not only the major Western economies but also the major economies of the newly developed nations, such as the BRICS. EU is an economic powerhouse with an important voice in the international forums such as WTO. However, due to its numerous regulations it's perceived as rigid and unwieldy.

The rise of the rest as Fareed Zakaria referred to the emergence of new poles of growth in different parts of the world is a challenge to come for the EU as a whole. EU should focus on the high-technology output in order to maintain its strong competitiveness in the international trade. This phenomenon is part of the bigger picture – the globalization process of global economic stage.

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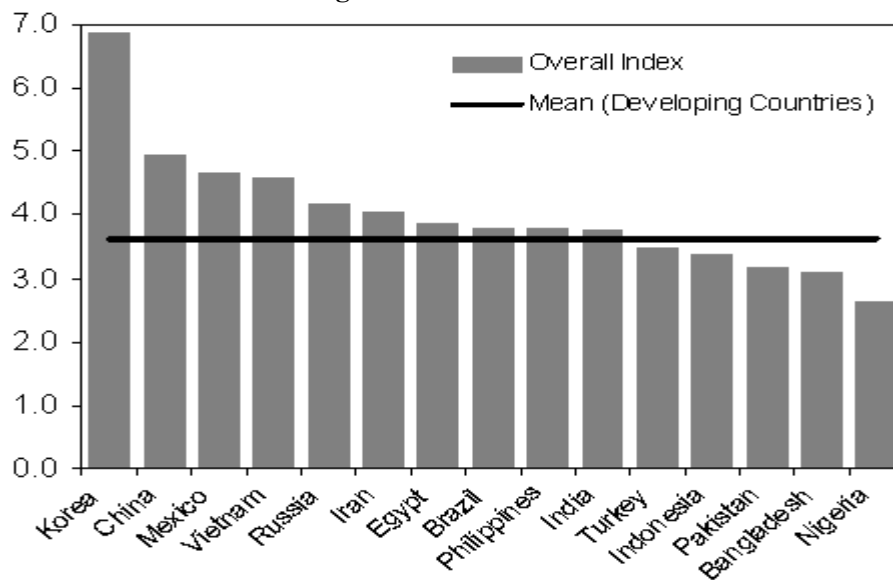
Annexes

Table 1. GNI per capita, selected countries

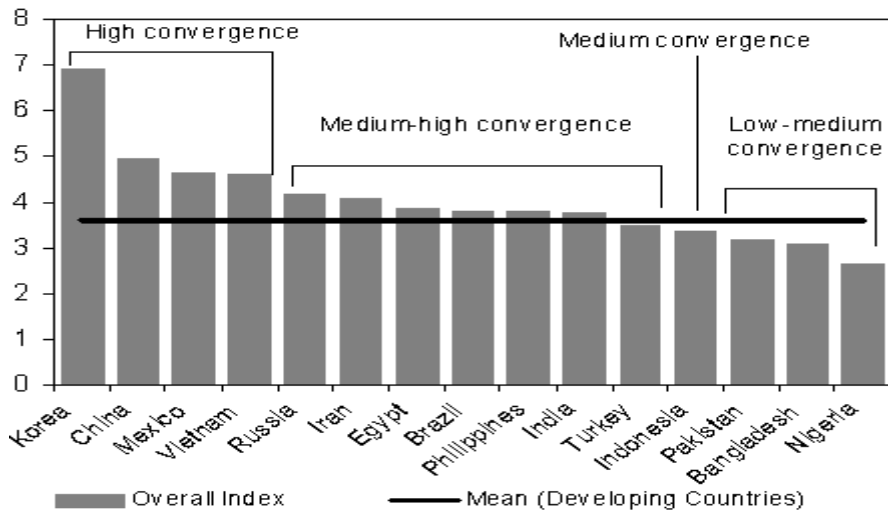
Country/Year	1990	2000	2005	2006	2007	2008	2009	2010	2011	2012	2013
Bangladesh	290	380	470	510	560	650	710	780	870	950	1,010
Brazil	2,700	3,860	3,960	4,800	6,100	7,480	8,140	9,520	10,700	11,640	11,690
China	330	930	1,740	2,040	2,470	3,050	3,610	4,240	4,900	5,730	6,560
Egypt	750	1,470	1,290	1,390	1,620	1,950	2,240	2,510	2,730	2,980	3,140
India	390	460	740	820	960	1,050	1,170	1,290	1,440	1,530	1,570
Indonesia	620	570	1,230	1,390	1,610	1,950	2,160	2,500	2,920	3,420	3,580
Iran	2,380	1,620	2,530	2,920	3,500	3,890	4,330	6,570	5,780
South Korea	6,480	10,750	17,800	19,980	22,460	22,850	21,090	21,320	22,620	24,640	25,920
Mexico	2,740	5,690	7,650	8,240	8,830	9,360	8,530	8,730	9,000	9,720	9,940
Nigeria	290	270	660	840	970	1,160	1,160	1,460	1,710	2,460	2,710
Pakistan	410	470	710	800	890	990	1,040	1,060	1,140	1,250	1,360
Philippines	720	1,230	1,530	1,660	1,900	2,230	2,480	2,740	2,620	2,960	3,270
Russian Federation	..	1,710	4,460	5,830	7,600	9,640	9,290	10,010	10,820	12,740	13,850
South Africa	3,390	3,140	5,050	5,690	5,970	6,030	5,900	6,240	7,050	7,640	7,410
United States	24,530	35,740	46,220	47,340	48,690	49,680	48,300	49,110	50,350	51,920	53,470
European Union	14,762	19,522	29,232	31,275	33,445	35,928	35,419	35,347	35,584	35,215	35,530

Source: Wolrd Bank, World Development Indicators, Series: GNI per capita, Atlas method (current US\$)

Figure 1. GES Index



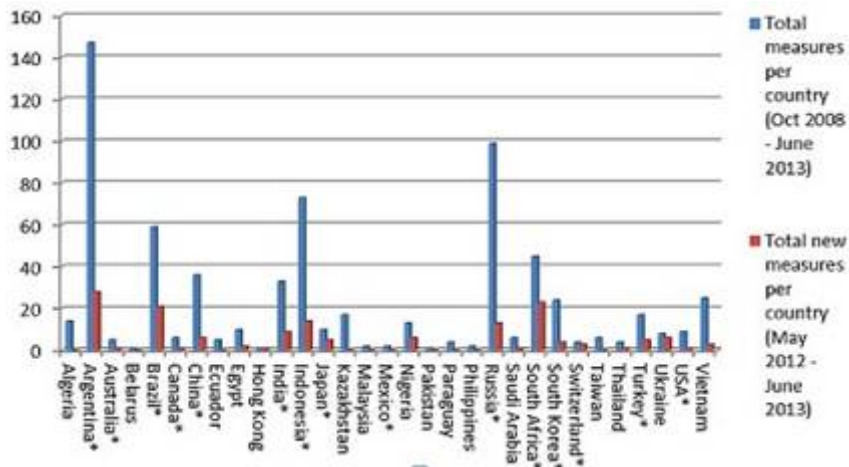
Source: O'Neill *et al.*, 2005

Figure 2. Convergence process GES IndexSource: O'Neill *et al.*, 2005**Table 2.** Measuring global power

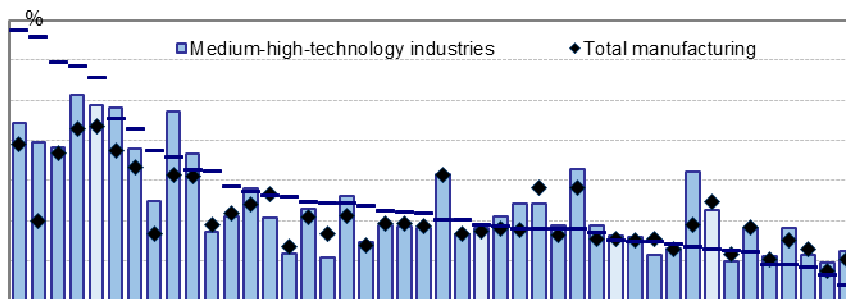
Country	China	India	Pakistan	Brazil	Mexico	Russia	Iran	South Africa
Population	1	2	6	5	11	7	18	27
Surface	2	7	36	5	15	1	18	25
GDP	2	12	45	10	13	11	30	29
GDP per capita	90	110	123	62	57	55	102	51
Economic growth	10%	8.3%	6.2%	3.6%	4%	6.9%	5.4%	4.2%
Military expenditures	2	11	31	9	26	72	12	40
Military capabilities	1	4	5	18	28	2	8	31
Share in UN budget (%)	(205)	(0.432)	(0.05)	13(1.52)	10(1.88)	(1.1)	(0.15)	(0.29)

Source: Nationmaster (www.nationmaster.com), IMF, World Economic Outlook, 2007, UN Budget Assessment, 2007, Stockholm International Peace Research Institute



Figure 3. Total protectionism measures by country

Source: Evans-Pritchard, Ambrose (2013) Europe fears 'uncontrolled protectionism' as emerging markets turn against free trade, The Telegraph

Figure 4. Growth of high- and medium-high-technology exports, 1997-2007

Source: OECD Science, Technology and Industry Scoreboard 2009, retrieved from <http://www.oecd-ilibrary.org/>

GENDER EQUALITY IN EU-FUNDED PROGRAMS: GLOBAL AND REGIONAL ISSUES

Irina MANOLESCU*, Stefana MAFTEI**, Carmen Claudia ARUSTEI***

Abstract: *Gender equality is a key issue in EU policies explicitly targeted over 50 years. The reports for the entire period show that progress has been made in the situation for women through specific programs, but the results are always lower than expected. Thus, inequalities persist in several areas, and developments are the source of new challenges. The main objective of this article is to show how gender equality influences EU funded programs and what issues arise depending on the area in which it is applied. We intend to highlight the types of projects that have gender equality objectives and successful models, considering the context in which these projects were carried out and highlighting the determinants of their success. On the way to building a sustainable and inclusive Europe, gender equality encounter many obstacles, particularly in regions where the ideas of existence of disparities and imbalances are not accepted and documented.*

Keywords: gender equality; program; projects; European funds

Introduction

Among the objectives of the European Union it can be find the protection and development of the European society and the support of its citizen through social policy. From this point of view, one of the most important areas of discussion is the European social protection, especially with regard of equal opportunities, for both men and women.

To support the European citizen regarding gender equality, the European Union has developed a legislative framework, consisting of a series of directives aiming various problems caused by gender inequalities: from the principle of equal treatment in matters of social security, followed by the importance of parental leave and up to the methods of providing evidence in cases of discrimination.

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At the beginning of the establishment of the European Union combining the strengths of its founding treaties with the actions of the Community and its Member States, the situation of men and women in the EU has experienced changes in different areas.

Even so, in the process of balancing the gap between genders, the Union still encounters a number of problems in various domains and aspects of life, and in attempt to remediate the situation, over the years there have been implemented a number of programs and strategies that aimed to achieve a series of objectives, such as: equal economic independence for both men and women, reconciliation of the private and professional life, equal representation in decision-making, eradication of all forms of gender-based violence, elimination of gender stereotypes and promoting it within development and external policies (EC, 2010a).

1. Overview of relevant literature

In the specialized literature it is shown that equal opportunities and employment based on competence are absolute necessary for social balance. In the field of employment and promotion at the workplace – one of the most present topics in studies and reports in the field of equal opportunities - to promote this idea of equality, means that nobody should be denied employment and/or promotion based on age, race, gender, ethnicity, religious beliefs or on any other criteria irrelevant to the idea of performance demanded by the item in question. If these elements are not taken into account, reaching a form a discrimination is easy.

The categories of people most vulnerable to discrimination are ethnic/racial minorities; religious minorities, women, sexual minorities, people with disabilities and the elderly. Obviously, depending on the context, other categories can become vulnerable – for example, in the context of the economic crisis, young people could be considered a vulnerable category.

Gender equality as a horizontal objective of the Union programs, is based on the concept that all human beings are free to develop their personal abilities and to choose what they do without limitation imposed by strict roles; the fact that different behaviors, aspirations and needs of women and men are taken into account, valued and favored equally means that women and men enjoy the same freedom to fulfill their aspirations.

Studies have shown that there are at least three major economic explanations for discrimination on the labor market: the “power” – derived form a group’s ability to make use of its power to obtain economic benefits on the expense of others; the “taste” – which is revealed when members of a group do not wish to be associated with members of another group; informational externalities – the use of statistical norms and clichés in hiring and promotion decisions.

These economic factors highlight the idea that in terms of discrimination we face not only with *direct/indirect* typology, but also with the typology which mentions the *conscious/ intentional* discrimination and the *unintentional* one and

also the *discrimination practiced at an individual/ group level* and the one *practiced at an institutional/ organizational level* (Mallick, 1995).

It also highlights a clear correlation between types of discrimination felt in terms of direct involvement, and social and demographic composition of the Eurobarometer. Thus, gender discrimination is identified differently, more by women (6%) compared to men (1%). The perception of discrimination is different in the countries of the European Union (EC, 2008). The highest percentages are occurring in countries such as Spain, Greece, Portugal, Sweden and Hungary (over 40%) and the lowest in Bulgaria, Ireland, Latvia, Poland, Germany, Finland and Romania (under 25%)

Although it is reflected in different European regions and countries, the issue of gender equality was a permanent goal of the European policies. The latest strategies aimed at tackling problems caused by gender inequalities are: the Roadmap for equality between women and men 2006-2010, continued by the Strategy of equality between men and women 2010-2015.

An analysis of the situation from which we start in 2006, shows the notable progress made up to that point, but also, the indicators that do not show noticeable improvement. Thus, 2006, has a favorable trend in terms of the level of employment of women, the employment rate increasing up to 0,7% from the previous year, also influencing the unemployment rate, which fell with 2.1 percent. Even so, in terms of management positions, only 32% of women occupied one of management and only 3% one of CEO. In addition, wage differentials have remained the same, approximately at 15% (EC, 2006).

Over the coming years it has been noticed a steady increase in the percentage of employment of women, from 56% (EC, 2007) up to 58,3% in 2009, although among the Member States there have been differences, from 35,7% in Malta to 72,3% in Denmark. In terms of salary, the difference grew during 2009, reaching an average of 17.4% (EC, 2009).

During the implementation of The Roadmap for equality between women and men 2006-2010, the European Commission, to support all actions undertaken in the framework of this strategy appealed to a range of approaches to change the existing legislation, including those in the 23rd and 24th of March 2006, when “The European Pact for equality between men and women” was accepted, followed by the approval of the Regulation establishing the European Institute of Gender Equality in December 2006. At the same time, in 2009 a Directive regarding parental leave was adopted, followed by a revision process initiated by the Commission regarding existing laws on equal non-discriminatory payment.

In spite of all the initiatives of the Commission and the Member States, the European Union was forced to acknowledge the failure of reaching the proposed targets and, consequently, to continue the implementation of a program to combat gender inequalities. Thus, the Strategy of equality between men and women 2010-2015 which is still in place and covers the areas of interest of the Union aims to resolve different problems, such as: equal economic independence for women and men, reconciliation of the private and professional life, equality in decision making and so on.



Economic independence for women and men, joined by the reconciliation of the private and professional life is an actual problem that resolving may reduce the pressure on social protection and the finance system, increasing at the same time the base of human capital and encouraging competitiveness. In this aspect, so far, the involvement of women in the labor market has increased and that of men in housework chores, but in terms of the jobs occupied by each genre there are still problems. If women have made progress, managing to break into fields that not long ago were considered “make appropriate”, this progress has been more modest among men. Areas such as social care, primary education, health and care, especially for the elderly and those with disabilities are still considered “female appropriate” (EC, 2010b).

Problems regarding the difficulties of hiring and promoting women at the workplace can be included as general issues because they are taken into account when it comes to the process of employment, promotion or dismissal of staff. Thus, a study highlights the reasons for exclusion/redundancy/marginalization which “disguises” gender discrimination (Czarniawaska, 2006). About some former employees it is said that “they had difficult personalities and it was impossible to work with each other”, “they were immigrants and could not adapt to local culture”, “did not fully understand how the system works”, “were not talented enough or worked too little “and” were too sensitive, taking everything seriously and had no sense of humor”.

The rules of description of the ideal behavior at the workplace are considered deeply male (Kelly et. al, 2010), hence resulting in a persistence of a different valorization of men toward women in the process of promoting. Also, during periods of restructuration, the progress achieved in promoting the hired ones are lost due to the following reasons (Dencker, 2008): reduction in force slowed promotion rates for all managers, women began their careers in lower-status jobs to begin with, relative to men, and women’s promotion advantages were often short-lived. Another effect of gender discrimination is the unfair payment, the men being paid more on average than women. In a study carried out over an extended period of time (Giapponi and McEvony, 2006), supports the idea of perseverance of this discrepancy.

In terms of *equal representation in the decision-making process*, in most Member States women continue to be under represented, particularly at the highest decision-making level although they represent half of the population and more than half of the number of graduates of the higher education in the EU. In this aspect, Finland’s situation can be taken into account, being the only country of the European Union, where the majority of the Government officials are women – 52%, unlike Hungary which is the only European country with a Government made up entirely of men (EC, 2010c).

The main barriers identified in the literature regarding professional careers and getting a decision-making job refer to: the difficulty of balancing parenthood and career, interrupted trajectory and poor performance due to the maternity leave (Ward and Wolf -Wendel, 2004), the fear of “getting out in front” (Winchester, 2006), low professional autonomy isolation, culture and mismanagement at a department level



(Bagilhole, 2002) and last but not least women's managing skills, different from that of men, less accepted and recognized (White, 2003; Doherty and Manfredi, 2006).

Eradication of all forms of gender-based violence is also one of the main directions of involvement of the Union. One out of three European women have lived an experience of physical or psychological violence until the age of 15 and a number of approximately 500.000 women had suffered from mutilations, based on an analysis carried out by the European Commission. In the 2010-2014 period of time in hopes of bringing to the public's knowledge the current situation, the European Union financed numerous informative campaigns conducted in partnership with non-governmental organizations and beginning with 2014, funds continued to be used through the implementation of the "Rights and Citizenship Equality" program, initiated by the European Court of Justice (EC, 2015).

Overall, the European Union and its institutions aimed to eliminate gender inequalities caused both within the Community as well as in the policy of development and external relations, in the idea that all the candidate countries have to accept the fundamental principle of equality between women and men, while monitoring the transposition and implementation of legislation, remaining a priority for the European Union.

2. Programs and gender specific tools

Gender equality is a horizontal objective included in development area, thus it is aimed to integrate the gender dimension in all EU policies and develop specific measures in order to remedy the inequalities. Including this objective into EU policies is ensured by the process of assessing the implications for both the women and men considering any planned action, including legislation, policy programs, in all areas and at all levels. There is a strategy to collect experiences and concerns of women and men within a each special stage of the project, implementation, monitoring and policies and programs evaluation in all political, economic and social domains, in order for women and men to equally benefit and not perpetuate inequalities. The ultimate goal is to solve gender equality issues.

From a methodological point of view, the EU has adopted a dual approach: one focused (positive action oriented to women or men, respectively to the group that is in a negative situation of inequality) and one cross approach (gender equality is systematically integrated in all actions). Special measures for encouraging women's participation in different situations in which women suffer from exclusion or there is a lack of women participation are implemented through positive actions. Through general equality actions, needs of men and women are identified and the participation is separately recorded aiming at maintaining equality in fact.

According to European Commission (EU, 2011), the main programs designed by EU in order to allocate funds for gender equality in 2007-2013 were:

- European Social Fund which targeted the issues of employment, pay differences, the promotion of equal opportunities at workplace.



- European Regional Development Fund which targeted to develop childcare facilities in order to help women to return faster at work and also gender requirements considering innovation issues
- Progress – a programme that has five specific objectives, among which one has considered the gender equality issue; thus over 12% of the funds were allocated for gender equality (approx. 90 mil. Euro).
- Daphne III which is a programme that addresses to the non-governmental sector and the Government institutions and focuses on legislative issues.

There are also other European initiatives that are moving towards this issue - for example, through the Financial Mechanism of the European Economic Area (EEA) (2009-2014), the program "Promoting gender equality and balance between work and private life" has also offered financial support.

It has been seen that different countries/regions approach the projects in this area differently. For example a successful strategic project developed during 11 years in Germany, financed by the ESF, is "Future Prospects for Girls". Through this project women are encouraged to work in areas that were traditionally chosen by men. Thus Girl's Day event has been developed, and that particular day became an opportunity for girls to visit companies in technological, research and high-tech industry. Following the success of this project, the same day became also "The Boys Day", as the boys started to visit organization which activate in fields that are dominated by women, such as health care and social assistance.

3. Methodology

The purpose of this paper is to systematically present the gender issues that influence EU programs considering specific problems that may occur depending on the domain or region where programs are implemented. The paper also highlights the types of projects that had gender equality objectives and briefly presents the results of ten largest projects, analyzing the context in which these projects were carried out.

In order to illustrate how Romania has tried to address the gender equality topic within European funded projects, a documentary research has been conducted. Most of the data were gathered from the official online database of projects funded through European Social Fund (ESF), Sectorial Operational Programme Human Resource Development (SOP HRD) 2007-2013, the "Promoting equal opportunities on labor market" Axis. Given the fact that the most information were presented very briefly we also analysed the projects' websites. An exploratory research was also conducted in order to gain some insights considering difficulties encountered in project implementation stage, issues that could not be identified within paper reports. The informants were consultants that help funded recipients to implement their projects or that are responsible for project auditing and findings helped us to develop the conclusion of the paper. The approach is mostly descriptive, however in the end some recommendations are proposed.

In order to gather the data the official website of structural project was used, considering that each beneficiary has the obligation to register the project online.



Fiftyfive projects were first identified. These projects comprise over 141 mil. Euros, of which 133 mil. Euro are non-refundable amounts. However two large projects which were in the top ten, considering their total value, were annulled at the end of April, so the final number of analysed project was 53. The total amount requested non-refundable thus reached almost 128 mil. Euro.

4. Main findings

After analysing the identified projects (53 projects) it was found that although the programme Axis 6.3. refers to the “promotion of equal opportunities on the labor market”, 52 projects approached the issues on gender equality (only one was addressed only other vulnerable groups), fact that was highlighted including in the title. One of the reasons may be the funding authority requirements that consider women category to be direct beneficiaries of projects. Out of the 53 projects analyzed, 58.49% were won by NGOs and unions or union groups, 22.64% by SMEs and other private companies from continuous development field and 18.87% by the public institutions and private education sector. Regarding the percentages describing each category of funded recipients, it seems that they are similar to the percentages described. However, there was a slight decrease of the percentage for NGOs (54.95% vs. 58.49%) and a higher percentage (about 5% more) for the third category, public institutions and private education (24.08% vs. 18.87%). This situation may occur due to either difficulties encountered by NGOs to prove financial capacity in order to implement the project or the difficulty of ensuring the 2% amount for co-funding.

The further results will take into consideration the analysis of the first 10 projects that aimed at promoting gender equality, projects that were chosen based on the total project amount. Regarding the type of the beneficiary, we can state that five of them were NGOs and trade union organizations, three were public institutions and private educational entities and two were SMEs. All projects were implemented over a period of 36 months and their total budget is between 20,9 mil. and 17,78 mil. RON. Although the projects were conducted at national level, in order to fullfill the funding requirements, it had been seen that project promoters entities were particularly from South and West regions of the country. North-East region was represented by Iasi and Suceava cities, but their main role was to help gather the direct beneficiaries of the project.

As a result of the projects’ activities analysed, it has been found that same types of interventions were used by most of the projects: conducting at least a national study on gender equality, offering certified courses on technical aspects and soft skills for women and other vulnerable groups, organising national awareness campaigns on gender equality issues, to promote women success stories and to develop information materials, including information guidebooks. For the entities that developed the project in partnership with organizations from other countries, some exchange visits were organised in countries like Italy or Spain.

It was also found that five out of ten chosen projects aimed at supporting women to open their own businesses. The support consisted in providing entrepreneurial training sessions, presenting women success stories, creating a



framework for networking and communication and also providing paper assistance in order to open a business. However, out of the five projects, only one had as result indicator, the number of opened businesses, the other four projects mentioning only the number of women assisted.

It has been also observed that the issue of gender equality has been addressed from several perspectives, depending on the target group:

- for women: professional courses to help them become competitive on the labor market; courses for the development of key or transversal skills; courses to increase the financial independence- entrepreneurship; information campaigns on the human rights, law and the way that they can protect from physical and psychical violence at the workplace; creating childcare facilities; presentation of women models and success stories; networking and information&communication platforms.
- for representatives of the media: law information in order to eliminate discrimination made in media productions.
- for employees of public institutions: exchanges to raise awareness of the status of women and the need to offer personalized services.
- for community in general: antidiscrimination information campaign; law changes proposals.

Conclusions

EU reports prove certain progress in gender equality, but they also mention that the proposed target was not reached and further specific efforts are needed. Over the time, differences in approach of funding programmes have highlighted the need for innovation in order to improve to problems that persist in time, determined by the structural religious and cultural dimensions.

Addressing the gender equality issues in a preliminary stage, the programming one, allows ensuring the availability of relevant statistical reference data on gender equality, in the defining specific programme's objectives stage. Although a program may not include specific interventions, the gender mainstreaming should be taken into account in the programming stage and relevant indicators setting. Thus the integration of equality can be ensured in all phases of implementation of projects funded, resulting in a positive contribution to improving the region's gender problems.

For applicants for project funding, the inclusion of gender equality both in the documentation project stage (defining the project's idea and detailed planning of the project actions) and in the end of the project, at the evaluation stage, and especially in the post-implementation period - to measure the effectiveness of measures implemented by the project by using relevant indicators - it is an aspect that can contribute decisively to emphasize the quality of interventions.

Increased and effective dissemination of specific ways that gender equality can be address through projects, would lead to a better integration of this objective within all actions taken by all stakeholders and to a great increase in the achievement of specific objectives.

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REGIONAL ECONOMIC SUSTAINABLE DEVELOPMENT IN EU: TRENDS AND SELECTED ISSUES

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Abstract: *The intensification of globalization and the manifestation of knowledge society brings to the forefront increasingly the role of regions in the economic development, which are considered the active and causal elements of economic development. For the achievement of the desideratum of regional sustainable development, regions are trying to identify the optimum strategies from both sectors perspective, respectively public and private, them operating in interdependence and interrelation relationship for a "healthy" economy in a society. The research paper will try to emphasize the main trends and issue that defines the phenomenon of regional sustainable economic development in practice from the direction of the public sector, using the background offered by literature and the analysis of official statistical data for empirical evidences. We estimate the analysis to offer us a new viewpoint on regional economic sustainable development with positive aspects, but also deficiencies that require solutions and policy options positioning regional strategies as an engine of development of the whole nation. Thus, we consider that the paper can be a useful viewpoint which allows researchers to include other sources of information for researching an in a much more complex approach.*

Keywords: regional economy; sustainable development; regional strategies

Introduction

By developing optimum strategies, the well-known “sustainability triangle” means creating a synergy between the three components, respectively economic, the social and the environmental. One of the key players in the regional economic sustainable development process is government with his levels (national, regional and local). In this context, authorities create the legal, fiscal, and regulatory environment that encourages job creation, competitiveness, economic growth, the improvement of quality of life. It also makes pivotal investments (named “public

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goods” by economists) that the private sector would not make. OECD (2015) see regional development as “a general effort to reduce regional disparities by supporting (employment and wealth-generating) economic activities in regions”.

Regional Economic Sustainable Development is seen as a key part of the Europe 2020 vision (“The Europe 2020 Strategy”), where economy supposes as main objective “a more resource efficient, greener and more competitive economy” (the European Council, 2010) . “The Europe 2020 Strategy” was designed as the successor to the Lisbon Strategy and was adopted by the European Council on 17 June 2010. The five targets set in Europe 2020 Strategy are summarized as following: i) GDP invested in scientific research and experimental development (R&D), ii) a target of employment rates, iii) climate change and energy sustainability, iv) educational attainment, and v) fighting poverty and social exclusion. This targets are designed to boost economic performance through sustainable development and creating a friendly environment for small businesses to start-up.

Monitoring trends in regional sustainable economic development using theories, especially indicators (as monitoring tools) was conducted by a variety of institutions, from companies or civil society formations, groups of experts or research centers up to local, regional and national governments, intergovernmental organizations or international financial institutions. Differences, however notable, of the ways of construction, stage of development and effective utilization of consistent sets of indicators illustrate the complexity of the task of finding real compatibility between empirical and normative approaches that integrate the concept of sustainable economic development. In this context, GDP per capita will remain an important performance indicator nationally and regionally; but measuring progress towards regional economic sustainable development in EU requires new thinking, where will be combine benefits in GDP growth with other claims on resources, such as those related to the environment or to social inclusion.

As we shall see, however, the analysis will offer a new viewpoint on regional economic sustainable development with positive aspects, but also deficiencies that require solutions and policy options positioning regional strategies as an engine of development of the whole nation.

1. The subject of the research, methodology and state of knowledge

The scope of this study is to emphasize the main trends and issue that defines the phenomenon of regional sustainable economic development in practice from the direction of the public sector through public strategies nationally or at the level of the EU. The approach of the research paper will be first on the background offered by literature, and second will be combined the quantitative analysis, primarily based on processed data from the Eurostat’s reports, OECD’s reports, with the analysis and monitoring of the involved qualitative issues. In interpreting results and formulating public policy recommendations, the analysis has permanently related to the legal framework in work over the considered period of time (e.g. The Europe 2020 Strategy).



The issue proposed for debate represents the subject of distinctive research in international literature of regional development, partially being also captured in the broader context of knowledge society, innovation and sustainable development issues (Amin and Thrift, 1994; Bathelt *et al.*, 2004; Cooke *et al.*, 1997; Iammarino, 2005, Lundvall, 1992; Scott, 1996; Storper, 1997). In general, three themes (Dawkins J., 2003) are discussed throughout the regional development literature: i) the theoretical predictions regarding the convergence (Heckscher, 1919; Ohlin, 1933; Samuelson, 1953, 1949, 1948; Solow, 1956; Swan, 1956) or divergence of per capita incomes across regions over time (Weber, 1929; Hoover, 1937; Isard, 1956); ii) the assumptions regarding the importance of internal and external scale economies to regional economic growth (Hoover, 1937); and iii) the role of space in shaping regional labor market outcomes (Hotelling, 1929; Devletoglou, 1965; Eaton and Lipsey, 1978).

The first theme is the approach of the neoclassical economics theory dominated by Interregional convergence hypothesis (Heckscher, 1919; Ohlin, 1933; Samuelson, 1953, 1949, 1948), through Heckscher-Ohlin-Samuelson (HOS) theorem which explain international factor price convergence using static equilibrium trade models. Heckscher (1919) and Ohlin (1933) demonstrate that a factor-abundant region will have a comparative advantage in the production of goods that require the intensive use of that factor. This region will be specialized in the production of that goods and then will export that abundant goods and import goods for which production factors are scarce. Samuelson (1953, 1949, 1948) extended the Heckscher-Ohlin theorem to demonstrate how free trade and/or the mobility of goods serves to equalize the relative and absolute prices of factors of production across those regions engaged in trade in the long run.

As a response to the convergence hypothesis included in neoclassical economics, some researchers (Weber, 1929; Hoover, 1937; Isard, 1956) developed Location Theory, which has focused primarily on developing formal mathematical models of the optimal location of industry given the costs of transporting raw materials and final products. This theory will support through the explicit models of transportation costs, the later theories of economic growth and development, particularly the new economic geography.

The second theme, try to complete traditional Weberian location theory, developing the typology of agglomeration economies and identifying that the benefits from agglomeration include: *large-scale economies* (as a result of traditional economies of scale); *localization economies* (as a result of the firms in the same industry being collocating in the same area); and *urbanization economies* (as a result of the colocation of firms in different industries).

The third theme, based on the role of space in shaping regional labor market outcomes (Hotelling, 1929; Devletoglou, 1965; Eaton and Lipsey, 1978) has as explanation the fact that spatial proximity gives firms market power, because nearby customers would be willing to pay more for goods that can be consumed without incurring substantial transportation costs.

Nowadays, economic sustainable development can be described as an “essentially contested concept” and it can be seen as a “battlefield of knowledge”



(Long, 1992), in which different participants try to produce the relevant strategies for its stimulation, to achieve the economic growth based on value-added. Foster and Sen (1997) considers that regional development refers to fund policies and internal or external actions taken to improve areas in need of economic development.

2. Towards an economic climate change scenario under the Europe 2020 strategy

European Union's regional development landscape is highly diverse, without a tendency of a perfect homogeneity in the foreseeable future. In the context of the permanently interest of regions to find and develop strategies for stimulating economic sustainable development and reducing discrepancies, these strategies are now driven by regions economic assets and their market opportunities.

At the heart of regional statistics is the nomenclature of territorial units for statistics classification (NUTS). An overview of the EU countries in accord with the nomenclature of territorial units for statistics classification is offered by the Table 1.

Table 1. Number of NUTS regions and statistical regions by country

GEO/Numbers of administrative-territorial units (ATU)	NUTS 1	NUTS 2	NUTS 3
<i>EU-28</i>	<i>98</i>	<i>272</i>	<i>1315</i>
Austria	3	9	35
Belgium	3	11	44
Bulgaria	2	6	28
Cyprus	1	1	1
Croatia	1	2	21
Czech Republic	1	8	14
Denmark	1	5	11
Germany	16	38	412
Estonia	1	1	5
Ireland	1	2	8
Finland	2	5	19
France	9	26	100
Greece	4	13	51
Hungary	3	7	20
Italy	5	21	110
Latvia	1	1	6
Lithuania	1	1	10
Luxembourg	1	1	1
Malta	1	1	2
Netherlands	4	12	40
Poland	6	16	66
Portugal	3	7	30
Romania	4	8	42
Slovenia	1	2	12



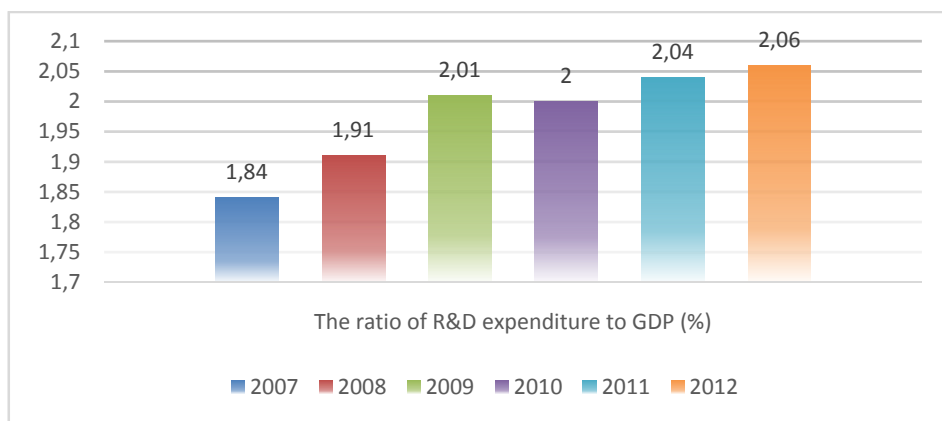
Slovakia	1	4	8
Spain	7	19	59
Sweden	3	8	21
United Kingdom	12	37	139

Source: Eurostat regional yearbook 2014

The Europe 2020 strategy wants to achieve five important targets by 2020. The first one is based on “Research and development” (R&D) by increasing combined public and private investment (in R&D) to 3 % of GDP.

Scientific research and experimental development (R&D) investments need to be taken into account in devising long-term strategies for regional sustainable development. Statistically, measuring the proportion of GDP invested in scientific research and experimental development (R&D) using the indicator gross domestic expenditure on R&D (GERD) (OECD Frascati Manual, 2002)), does not show the proportion of expenditure on R&D which contributes specifically to regional sustainable development, but measure the so-called R&D intensity. The indicators cover the resources devoted to research and development, patent families, technology balance of payments and international trade in R&D-intensive industries. The limitation of this indicator, in our opinion, is that expenditure does not reflect the potential of R&D in a given country, but only the effort conducted in a given year. Researchers as a percentage of population, labour force, or employment, are also necessary indicators. Scientists are improving their understanding on policy-relevant issues such as climate change, growth in resource consumption rates, demographic trends, and environmental degradation.

Figure 1. R&D Intensity in EU-28 countries, by NUTS 2 regions over the period 2007-2012

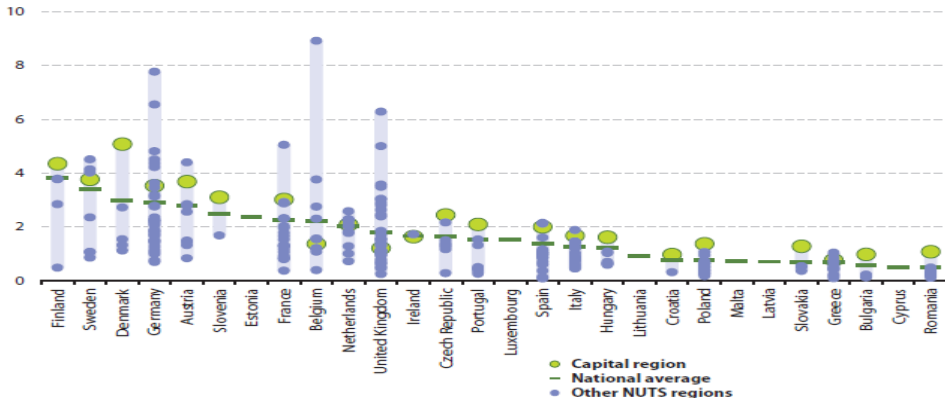


Source: computed by authors using data of Eurostat

The R&D intensity rose from 1.84% in 2007 to 1.91% in 2008 and reach 2.01% in 2009. The evident increases in 2008 and 2009 was a result of the contraction in economic activity during the financial and economic crisis rather than an expansion in the level of R&D expenditure. The R&D intensity registered

2.00% in 2010, 2.04% in 2011 and 2.06% in 2012. In order to achieve the 3.00% target that has been set for 2020, the EU-28s R&D intensity would need to grow, on average, by 0.12% each year.

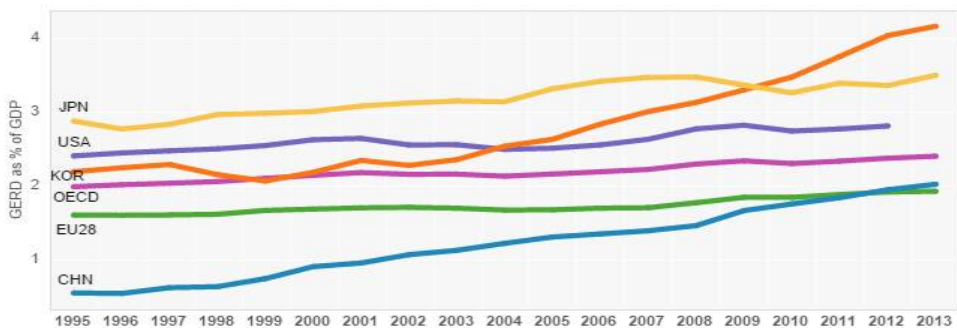
Figure 2. Regional disparities in R&D intensity, by NUTS 2 regions, in 2011



Source: Eurostat regional yearbook 2014

The R&D intensity was more than 3.00% in 2011 in Finland and Sweden. In Denmark, the R&D intensity was 2.98%; the lowest intensity being in Bulgaria, Cyprus, and Romania (less than 1%). Capital regions recorded the highest level of R&D intensity in 11 of the 22 EU Member States for which data were available (Eurostat).

Figure 3. The R&D Intensity in EU-28 countries compared with other economies



Source: OECD estimates based on OECD Main Science and Technology Indicators Database, 2015/1., on <http://www.oecd.org/sti/msti.htm>

Comparative with other economies, R&D budgets in EU area appear a small increase over the period 1995-2013, but always to the level under OECD countries, USA, Japan or Korea. China has registered a strong increase in R&D intensity, more rapidly than OECD countries, but under the level of EU countries.

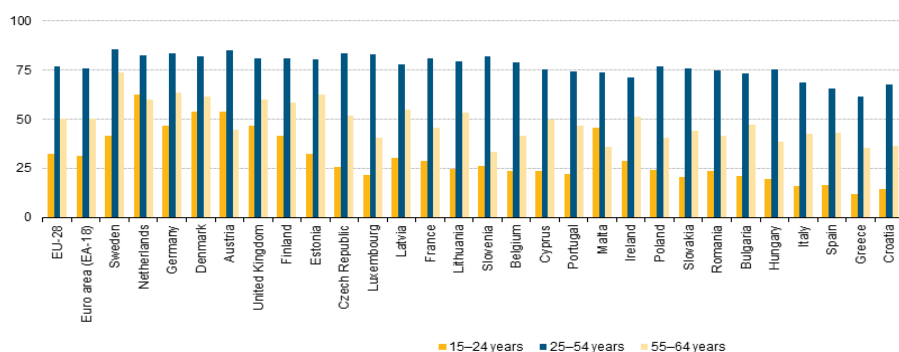
The second one is oriented on “Employment” by increasing the employment rate of the population aged 20–64 to at least 75%. Depending on the economy of each member state of EU, there are individual agreement as targets range from



employment rates of 80% or more in Denmark and Sweden. In Ireland, Greece, Italy, Malta and Romania the targets are down to 70 % or less.

The EU-28's economically active population (also called the labour force) was composed of 242.2 million persons aged 15–74 in 2012, among which 216.9 million were employed (89.55%) and 25.3 million were unemployed (in search of work and available to work). In 2013, the EU-28 employment rate for persons aged 15 to 64, as measured by the EU's labour force survey (EU LFS), stood at 64,1 %. The highest regional employment rates in the EU-28 were predominantly recorded in north-western and central Europe, employment rates in 2013 reached highs in the range of 72% to 74% in Austria, Denmark, Germany and the Netherlands, peaking at 74.4 % in Sweden. The lowest regional employment rates in 2013 were generally found in Croatia (49.2 %) and Greece (49.3 %).

Figure 4. Employment rates by age group in 2013



Source: computed by authors using data of Eurostat

Employment rates in the EU-28 are generally lower among women and older workers, respectively the employment rate for men stood at 69.4% and 58.8% for women in 2013.

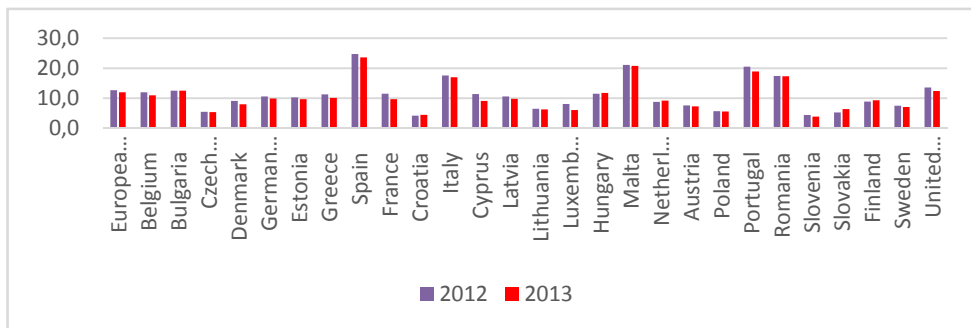
The third target regards “Climate change and energy sustainability” linked to the sustainable use of natural resources and the maintenance of ecosystems by reducing greenhouse gas emissions by at least 20% compared to 1990 levels, increasing the share of renewable energy in final energy consumption to 20%, and moving towards a 20% increase in energy efficiency. By Decision No 1386/2013/EU¹ of the Council and European Parliament was adopted The 7th Environment Action Programme (7th EAP) to 2020 – “Living well, within the limits of our planet” which provides a vision for EU environment policy through to 2020 and beyond. To contribute to the sustainable growth objectives and targets of Europe 2020, three priorities were identified: i) a low carbon economy, ii) ecosystem services and biodiversity, and iii) eco-innovation.

¹ Decision No 1386/2013/EU of the Council and European Parliament was adopted The 7th Environment Action Programme (7th EAP) to 2020 – “Living well, within the limits of our planet”

The fourth target is “Education” by reducing the share of early school leavers under 10% and increasing the share of the younger generation having a tertiary degree to at least 40%.

In 2013, the proportion of early leavers from education and training (group aged 18–24) in the EU-28 was 12%, where 14.4% were male early leavers and 10.9% were female. 35 regions of NUTS 2 registered 20% or more of early leavers from education and training. 26 regions were located across southern Europe, being concentrated in Spain and Portugal, Italy (4 regions, including the islands of Sardegna and Sicilia), Greece (region of Anatoliki Makedonia, Thraki), and Malta (1 region). In 9 regions more than one fifth of the population aged 18–24 was classified as an early leaver, being concentrated in the United Kingdom (4 regions - Cornwall and Isles of Scilly, and the Highlands and Islands (of Scotland)), Bulgaria (2 regions) and Romania (2 regions).

Figure 5. Early leavers (group aged 18–24) from education and training in 2013 by NUTS 2 regions

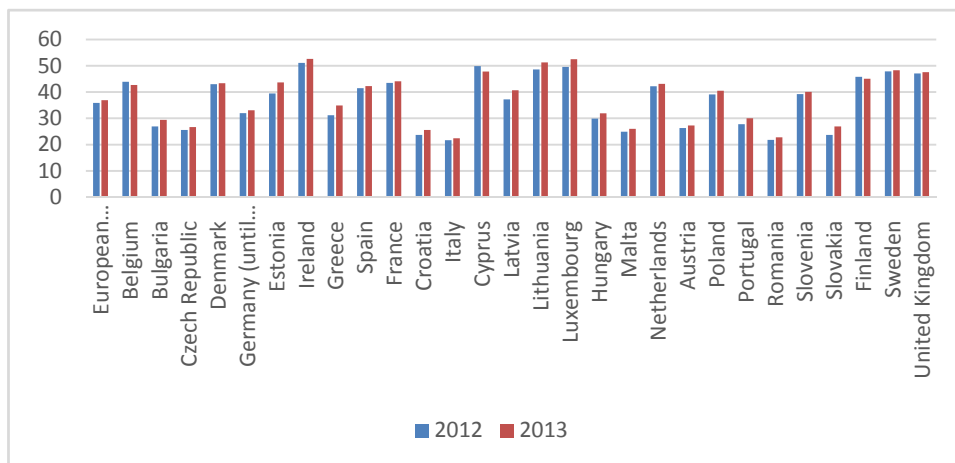


Source: computed by authors using data of Eurostat

The share of 30–34 year-olds population with a tertiary education (the target group of the Europe 2020 strategy), respectively a university degree or similar qualification, was 36.9% in 2013. 21 regions of NUTS 2 in the EU had more than 50% of the population aged 30–34 attaining a tertiary level of education in 2012, being concentrated in the United Kingdom (9 regions, mostly located in the south of England (around London) and in eastern Scotland).

The fifth is “Fighting poverty and social exclusion” by lifting at least 20 million people out of the risk of poverty and social exclusion. More than one third of the EU’s budget is focused on cohesion policy, investing a total of EUR 351 billion on Europe’s regions over the period 2014–2020, which aims to remove economic, social and territorial disparities across the EU with impact on growth and jobs, for example, by helping restructure declining industrial areas or diversify rural areas.



Figure 6. Population aged 30-34 with tertiary education by NUTS 2 regions

Source: computed by authors using data of Eurostat

3. Focus on regional economic development

Economic development is usually expressed in terms of gross domestic product (GDP), which in the regional context may be used to measure macroeconomic activity and growth summarizing the economic position of the region, providing the basis for comparisons between regions (Eurostat, 2014). From the policy perspective, GDP can be used as determinant indicator for eligibility of regions to receive support from the EU's structural funds (are taking into account three-year averages of GDP), or determining the extent to which each EU Member State should contribute to the EU's budget. GDP per inhabitant is frequently regarded as a proxy indicator for overall living standards.

Table 2. Gross domestic product (GDP) at current market prices by NUTS 2 regions (Euro per inhabitant)

GEO/TIME	2007	2008	2009	2010	2011
EU-28	24.900	25.000	23.400	24.400	25.100
Belgium	31.600	32.400	31.600	32.700	33.600
Bulgaria	4.000	4.600	4.600	4.800	5.200
Czech Republic	12.800	14.800	13.600	14.300	14.800
Denmark	41.700	42.800	40.500	42.600	43.200
Danmark	40.000	41.000	39.300	41.200	41.500
Germany	29.500	30.100	29.000	30.500	31.900
Estonia	12.000	12.100	10.400	10.700	12.100
Ireland	43.100	40.100	35.800	34.700	35.500
Greece	19.900	20.800	20.500	19.600	18.500
Spain	23.500	23.900	22.800	22.700	22.700
France	29.600	30.100	29.300	29.900	30.700
Croatia	9.800	10.700	10.100	10.100	10.400
Italy	26.200	26.300	25.200	25.700	26.000

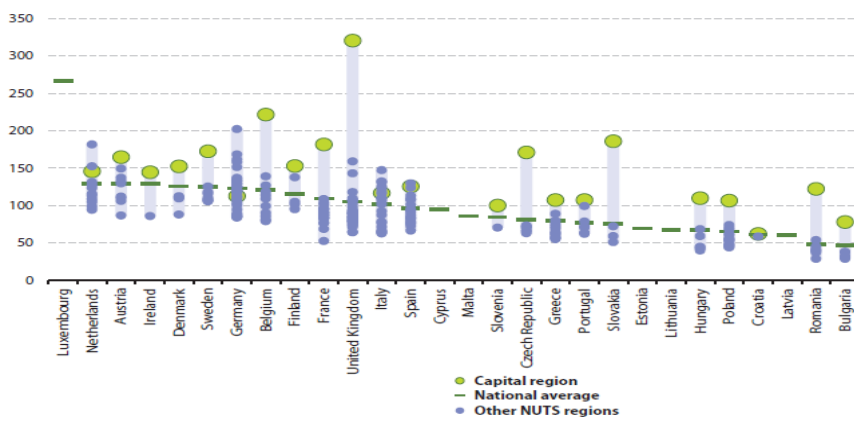
Cyprus	20.700	21.800	20.900	21.000	21.100
Latvia	9.600	10.500	8.600	8.600	9.800
Lithuania	8.900	10.100	8.400	8.900	10.200
Luxembourg	78.000	76.400	71.400	77.400	80.300
Hungary	9.900	10.500	9.100	9.600	9.900
Malta	13.700	14.600	14.400	15.400	16.000
Netherlands	34.900	36.200	34.700	35.300	35.900
Austria	33.000	34.000	33.100	34.100	35.700
Poland	8.200	9.500	8.100	9.200	9.600
Portugal	16.000	16.200	15.900	16.300	16.100
Romania	5.800	6.500	5.500	5.800	6.200
Slovenia	17.100	18.400	17.300	17.300	17.600
Slovakia	10.200	11.900	11.600	12.100	12.800
Finland	34.000	34.900	32.300	33.300	35.000
Sweden	36.900	36.100	31.500	37.300	40.800
United Kingdom	34.200	29.900	25.700	27.800	28.200

Source: computed by authors using data of Eurostat

Among the NUTS 2 regions in 2011, GDP per inhabitant in PPS terms ranged from a high of 321 % of the EU-28 average in Inner London down to 29 % in the Nord-Est region of Romania. Many of the regions with relatively high average GDP per inhabitant were capital regions or regions that neighboured capital regions. Among the 10 NUTS 2 regions that recorded the highest levels of GDP per inhabitant there were seven capital regions (Inner London, Luxembourg with a single NUTS 2 region, and the capital regions of Belgium, Slovakia, France, Sweden and the Czech Republic).

These regions are characterized as: headquarters of large enterprises and financial services (often clustered in capital regions), largely urban areas (Hamburg and Oberbayern (which includes the city of Munich) in Germany), university cities (Groningen), large sea ports, off-shore gas fields, etc.

Figure 7. Regional disparities in gross domestic product (GDP) per inhabitant, in purchasing power standard (PPS), by NUTS 2 regions, 2011



Source: Eurostat regional yearbook 2014



In general, capital regions have the highest average GDP per inhabitant, as capital regions of the Czech Republic, Greece, Ireland, Hungary, Poland, Portugal, Romania, Slovenia and Slovakia recorded a GDP per inhabitant above the EU-28 average in 2011. There are also capital regions that recorded a level of GDP per inhabitant below its national average (Berlin in Germany).

Final remarks

A first important issue that the analysis conducted within this study, is that the NUTS 2 regions in the Central and Eastern European countries are due to a rigorous implementation of regional strategies to achieve the desiderata of The Europe 2020 Strategy. In this respect, it is recommended that the countries concerned to develop “hard strategies constraints”, and not “soft strategies constraints”. Their attention is even higher by identifying and implementing a more rigorous sustainable regional economic development strategies, the more financial co-support of EU funding are higher for these regions.

The second important issue is that the results of the analysis emphasized the necessity of a relationship between regional governments and public or private agents providing regional public services, agents that must be treated as regional development drivers, especially in Central and Eastern European Countries (EEC). For public policy-makers, the economic regional sustainable development should be translated for EEC into creating a more stimulating framework for public-private partnerships, a relaxation of national legal framework for EU funds, a more stimulating framework for entrepreneurship. Not only there aren't arguments to prove that stimulating initiatives or supporting healthy regional development projects initiated by public or private agents, but the practice of some EU member states even supports this approach.

In our opinion the three shifts will be important for regional economic sustainable development through regional policies, as following: i) Make regional economic sustainable development the goal of regional development policy and align national development programs accordingly; ii) Design new efforts to help regions seize innovations and grow entrepreneurs; and III) Create an effective delivery system for national development programs to regions.

The overall conclusion of this study indicates that regional economic sustainable development has as practical result the creation of new businesses and expansion of existing businesses, in a way that expands the total number of jobs and results in a rising average wage, in a rise of the standard of living.

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ESTABLISHING THE EUROPEAN PUBLIC PROSECUTOR'S OFFICE. A NECESSITY IN THE REGIONAL CONTEXT OR A DIMINUTION OF COMPETENCES?

Raluca ONUFREICIUC*, Lacramioara MAFTEI**

Abstract: *Given the possible multiple jurisdictions for cross-border offences falling under the competence of the European Public Prosecutor's Office, it is essential to underline the advantages and disadvantages of this new single, strong, independent institution. The opportunity of establishing the European Public Prosecutor's Office derives, ipso facto, from the prejudice of about 5 million EUR in the European budget and also from the ex nunc benefits of all member states due to effectively combat the border crime phenomenon and the frauds from the own member states systems.*

Keywords: European Public Prosecutor's Office; regional context; European budget; fraud with EU funds

Introduction

In the context of the global and European financial crisis, we can remark an increase of austerity concerning the public money management putting the European Public Prosecutor's Office in a new perspective. Therefore, the member states must take responsibility in restoring the Union's budget and be aware of the crucial character of their intervention and effective operation in this sensitive matter concerning the Union's financial interests. Due to the adoption of the Lisbon Treaty, which sets out for the first time the concept of a European Public Prosecutor at the level of primary EU law, the establishment of this institution could be described *ad literam*, as one of the most topical issues under discussion in the European Union (EU).

This new concept of the European Public Prosecutor's Office (EPPO) could be best implemented and integrated in the current landscape of the European area

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of freedom, security and justice in order to promote an unified and consistent EU action against the offences affecting its financial interests including common prosecution priorities and harmonised levels of punishment. Moreover, the frequent international or cross-border dimension of this crime and its technical complexity seem to justify the coordination and centralisation of decisions at EU level. The independence of the EPPO seen as an agency capable of restoring trust in the Union's institutions, as well as its immunity from local political influence or prosecutorial instruction are key issues.

„There are more than 16 years since notorious fraud cases hit the mass-media.”

Taking as a starting point the statement of the Honourable Judge in the Pre-Trial Division of the International Criminal Court C. Van Den Wyngaert, member of the *Corpus Juris* project - the historical creation of the European Public Prosecutor's Office concept - the fact that a number of investigating judges and prosecutors sounded the alarm because of their efforts to engage in trans-border judicial cooperation in the fight against corruption and fraud, efforts susceptible of political interference exercised from the political sphere. This alarm was a “public outcry” for imperious change at a press conference in Geneva, hence it was called the *Appel de Genève* (Van Den Wyngaert, 2013, p.3). Moreover, the same judge claims that the European Public Prosecutor's Office should be integrated into one large judicial branch of the European Union which would imply the integration of the European Court of Justice, with a key role in the area of European criminal law and procedure.

1. Short narrative

The challenge of protecting the financial interests of the European Community has been present since 1976, appearing as an almost natural consequence of the Own Resources Decision (Summaries EU legislation, 2007). Any criminal protective measures, in order to be effective, require specific mechanisms and institutions. The legislative context and evolution of the idea of a United Europe did not seem conducive to the creation a self-standing institution, with its own powers necessary to protect the financial interests at the heart of the future European construction.

In 1988 the Anti-Fraud Coordination Unit (UCLAF) was created, which was intended in the first instance to work with national anti-fraud services in each Member State. Its job was limited to the exercise of functions and *in concreto* that of coordination and assistance, necessary to investigate cases of transnational organized fraud. *Ab initio* it was part of the General Secretariat of the European Commission, and then institutionally integrated in the Commission, the importance of UCLAF and later that of the Anti-Fraud Office (OLAF) has emerged gradually once its powers expanded. In this respect we remember that in 1995 (EC, 2015) UCLAF was able to start an investigation *ex officio* once it was notified about possible fraud offences. Moreover, even within the European Commission,

directorates were required to report any suspicion of financial fraud arising in their areas of responsibility.

The signing of the Convention on the protection of the financial interests of the European Communities (or PIF Convention) in 1995, the entry into force of the Treaty of Amsterdam, and the resignation of the Commission led by Jacques Santer on March 15, 1999, due to alleged financial irregularities, created a favourable environment for the creation of a new anti-fraud body. This was done by adopting Decision No.1999/352 and Regulation No. 1073/1999 concerning the general rules applicable to OLAF investigations, as a response to a political emergency. The collapse of the Santer Commission was important because it was for the first time that the Parliament dared to attack the Commission, asserting itself as a true legislative power (EuroParlTV, 1999), and generating a series of changes in terms of accountability and control. As defined in the treaty, the creation of an area of freedom, security and justice in which the free movement of persons is guaranteed was actually targeted as one of EU objectives.

After that, the European Parliament, through a series of resolutions, and the European Commission, through a long process of consultations, have followed a convergent trajectory. The first turning point was the drafting of the *Corpus Juris*, which enshrined a general series of criminal provisions regarding the protection of the financial interests of the European Union. In essence, the main objective was that the Intergovernmental Conference in Nice overcomes the limits of classical judicial cooperation (Buneci *et al.*, 2008, p.108) and finds a cure for fragmentation in the European jurisdiction in criminal matters by creating an autonomous institution of the European Prosecutor. But the necessary period of time in order to examine the proposal and the reluctance on its practical consequences led to its rejection by the Heads of State and Government meeting in December 2000. Finally, based on the recommendations from the Council and the excerpts from the Intergovernmental Conference, the European Commission undertook Action Plan 2001-2003¹ for the protection of the Communities' financial interests (Summaries EU legislation, 2001) and debated specific problems related to the protection of the Community's interests. So, even before the publication of the Green Paper, the Committee of the Independent Experts (EC, 2015) and the OLAF Supervisory Committee (OLAF, 2005) recommended again the creation and implementation of a European Public Prosecutor as an independent entity.

Finally, on 11th of December 2001, the drawing-up of the Green Paper (ECC, 2001) the Commission of the European Communities initiated protective measures under the criminal law towards the financial interests affected by this initiative, but the tensions created and the failure of the Constitutional Treaty left almost pointless the autonomy of the institution. Only after signing the Lisbon Treaty one could foresee a new attempt to reconfigure clear objectives in this regard.

¹ See *Action Plan 2001-2003* available at: http://europa.eu/legislation_summaries/fight_against_fraud/protecting_european_communitys_financial_interests/133162_ro.htm



2. The background to the proposal of establishing an European Public Prosecutor's Office

In September 2012 the European Commission announced its proposal of establishing a team of prosecutors to combat cross-border crime, *ab initio*, consisting of smuggling, corruption and fraud with EU funds on a significant scale. The main frame of legal references on this matter was part of PIF Convention. Subsequently, its jurisdiction *rationae materiae* expanded including national fraud with EU funds and related crimes.

The extent of fraud with European funds which the Commission had stated publicly is estimated to 5 billion EUR annually. This is an unofficial figure due to the fact that not all member states report on the number of investigations that are carried out, or what measures shall be taken to recover the money. Given that the potential damage is considerable, these frauds, both cross-border and domestic, are not always investigated and prosecuted by competent national authorities whose law enforcement resources are often limited. Consequently, both the cross-border dimension of these crimes and the applicability of national law will most often escape the attention of national authorities. (EC, 2013, Regulation Proposal).

The current procedures for information transfer and cooperation to a closer and more effective coordination of investigations and prosecutions at the European level are not sufficient to combat cross-border crime, despite the strengthening of Eurojust, Europol and OLAF, suffering severe limitations due to the sharing of responsibilities or attributions between institutions belonging to different functional and territorial jurisdictions.

Currently, the EU has no authority regarding the prosecution of offences which affect the financial interests of the Union including its budget taking into consideration that at the moment only the member states have the exclusive competences in investigating and prosecuting them.

The Reform Treaty has come with a significant gain in integration matters aiming at a radical change of the fundamentals of treaties on the two bodies active in the field of police and judicial cooperation, Europol and Eurojust, complementing the possibility of establishing an EPPO. The relevant articles concerning these bodies, seen in the context of the "communitisation" of the third pillar, are marked by a new philosophy which is able to reform these two institutions in a substantial way. The reason of this new body, as explained by Viviane Reding, Vice President of the European Commission, resides in the following explanation: in order to protect the interests of the EU one cannot use fragmented means - for a "federal" budget you need federal tools (Reding, 2013, p. 5).

The novelty was the fact that those dispositions provide the European legislator with the authority to give new tasks and powers including the operational nature of both bodies and establish institutional corollary issues such as internal functioning, rules of parliamentary scrutiny exercised by the European Parliament together with the national parliaments of the member states and exercise judicial control by the European Court of Justice (Erkelens *et al.* 2015, p. 45).

Questions relating to the necessity and future development of the EPPO and Eurojust are fully valid, the fine line between the two being drawn through the provision of art. 85 (2) TFEU, which indicates the fact that Eurojust may not provide formal acts of judicial procedure and may not send anyone to trial, while the European Prosecutor's role is specifically to provide formal acts and obtain convictions. On the other hand, the purpose of establishing this office is to act before national judges in compliance with national criminal law, the legislature must find a compromise between the Union and national judicial resources (Erkelens *et al.* 2015, p. 41)

To summarize, despite the existence of Eurojust and Europol - which have a general mandate to facilitate the exchange of information and coordination of prosecutions and criminal investigations in national systems, the two bodies lack the power to conduct, themselves, acts of investigation and prosecution.

Moreover, one of the key arguments for the establishment of the "institution" of the European Prosecutor is that OLAF, a specialized structure in the fight against fraud with European funds, has the power to investigate frauds and activities adversely affecting the financial interests of the Union, but it is limited to strictly administrative investigations that do not always lead to trials. The statistics highlighted the fact that 50 % of investigations initiated by OLAF were not fulfilling their purpose as a direct consequence of the fact that investigations started by OLAF revealed that the fraud with EU funds did not always end in court - a *sine qua non* is that investigations be completed by national authorities, in this case by national courts. Still, OLAF annual reports support the conclusion EN 27 N that at present the national authorities with competence in the field of investigation and prosecution, are seemingly lacking the ability to achieve a certain level of protection and enforcement (OLAF, 2011).

In support of these arguments, we note that art. 280 of the EC Treaty expressly provides the protection of financial interests which must be effective and equivalent in all member states. Thus the European Community was forced to guarantee each member state and implicitly the European citizens as well, that fraud and corruption offences were sent to trial. Otherwise, it risked to publicly compromise the credibility of the judicial system in fulfilling its purpose.

Against this background, the failure to achieve a certain level of protection and effective application of investigations and prosecutions by the authorities of the member states requires bringing into question especially whether the Union has the required competence, as well as the compulsory interventions that are required in the matter here concerned. By its nature, the Union's financial system is managed at the EU level and therefore topics regarding member states legislation harmonization are more concentrated than other EU policies. Reasonably, they cannot be strictly managed by each member state (EC, 2013, p. 27).

Art. 86 of the Lisbon Treaty provides the legal framework to strengthen a new level of accusatory system whose role is to revise current deficiencies that are based exclusively on the national "efforts" to add consistency and better coordination in the field of combating and preventing fraud in Europe.



An argument which precludes the necessity of establishing an EPPO would be that if the member states supported the European Commission's regulation proposal, they would admit that at least on fraud with European funds, the Public Ministry and the judicial authorities at the national level are unable to perform investigation and prosecution of these types of crimes, that they are incompetent or that they simply have neglected this type of crime investigations and their governments are not willing or would not, literally, invest in improving the current situation. So they should accept that they need a European Prosecutor, an external body to act in an independent manner from any control, beyond the political realm and beyond the responsibility of governments and national parliaments, that there is a need for a institution that is clearly distinct from the national structures of judicial organization that already exist (Erkelens *et al.*, 2015, p.197).

This recognition, however, would involve exposing a member state whose Public Ministry seemingly fails to properly combat fraud, corruption and related crimes committed against the Union's financial interests, and would raise serious questions about the ability of the member-state's judiciary to discover fraud, corruption, organized crime in general. Given the fact that such transnational crimes are more complex than those at the national level, for which the member-state's authorities possess the necessary expertise (regarding procedural documents, investigations, prosecutions, other related actions), the European Prosecutor's Office would have exclusive jurisdiction in the field of crimes against the EU's financial interests.

Doubts about the performance of public prosecutors in the member states on this niche, fraud with EU funds, might, in the end, have a certain influence in the development of the Union's objectives in the field of Justice and Home Affairs. In order to achieve these objectives, the member-states' criminal justice systems must work properly. member states that joined the Union in 2004 have demonstrated their ability to live up to EU standards on matters such as the fight against corruption, fraud and organized crime, meeting the requirements formulated by the European Commission during the accession negotiations, notably those concerning justice, freedom and security.

In summary, the question is whether any of the member states, by supporting the European Commission's proposal and by implicitly accepting EPPO's interference in the national judicial organization, would admit that its capacity is *ipso facto* inadequate, insufficient or ineffective in the fight against crimes affecting the financial interests of the EU, although it might have successfully completed the transformation of its domestic judiciary, under EU pressures for harmonisation.

3. Federalism or reinforced cooperation?

The EPPO is often described by its nature as a federal tool. Its federal status stems from the character of the Union budget and of the need to protect the criminal prosecution authority which operates at a supranational level. Thus, the federal office shall be based on the fundamental assumption that violating the

interests of the EU as a whole should be treated as a problem of the whole community. Therefore, violations which harm the EU should be investigated throughout the EU by a specialized agency, with powers of investigation possible united with direct actions against suspects, and organized on a hierarchical structure of making a single decision. And such a clause is justified, no doubt, if we look at the structure of offences against the EU's financial interests, which have become significantly based on transnational networks that are not confined to the territory of a single member state.

Therefore, the Commission points out that because of this type of transnational criminality, the latter is not and actually cannot be treated with an effective national system of investigation and prosecution in criminal matters slowed down, this system being seemingly fragmented and ineffective. Furthermore, although the member states are required to penalise the financial abuses of the budget of the Union by the Convention concerning the protection of the financial interests of the European Communities (and additional protocols), they are far from achieving a unique standard for the protection of those interests. And these interests tend to pass on a backburner as importance in comparison with the direct financial interests of the member states. Tolerating this double-standard approach in prosecuting offences against the financial interests of the member states and of the EU would be a breach of the already existent obligations on their account, in the art. 325 alin. (2) TFEU. Legal provision requirements oblige member states to take the same measures to combat fraud committed against the financial interests of the Union and against their own financial interests (Erkelens *et al.*, 2015, p. 214).

We cannot, however, think at the EPPO as a clear example for federalist tendencies of the European Union. It is unprecedented that under art. 27 paragraph (1) of the Commission's proposal, both the European Prosecutor and the Delegated European Prosecutors will act directly in criminal proceedings — they have the same powers as national prosecutors relating to the prosecution and indictment. However, there are three solutions introduced in the legislative proposal that diminish the federal character of the institution.

Firstly, the *decentralized* structure of the Office, in close connection with the European Delegated Prosecutors from the national prosecutors. Secondly, the Commission did not propose a common federal system of criminal procedure, but is supported by national regulations sustained by automatic *mutual recognition* and a set of *principles of harmonization* (EC, 2013, Regulation Proposal).

Thirdly, it is not trying to introduce a system of criminal courts against the Union's financial interests, but remains limited only to a European Office competent only for investigation, prosecution and conviction of those responsible for committing fraud against the financial interests of the Union. Therefore, taking into account the model of the federal Office briefly presented above, the implications for the pattern and composition of the EPPO result rather from the use of reinforced cooperation. As, on the one hand, closer cooperation is a compromise designed to save the EPPO project and to enable its entering into force – in a more "diluted" manner or with a more diminished purpose – with the hope that it will



gain a broad recognition and thereby it will have its powers expanded in the future. On the other hand, the very logic of the Office would be challenged if it were to become just another territorially limited prosecution agency, like the national ones that are already operating within the European Union.

Furthermore, a Union divided into participative states and non-participative states, causes a partial applicability of the idea consisting in a single body able to take this competence in the field of investigation and follow-up within the member states to ensure a complex and effective decision-making. Judicial cooperation with non-participating states will not change in a fundamental manner: it will be achieved through existing legal mechanisms for cooperation but with a difference. It will replace the cooperation between two or more national judicial authorities of different member states with a new way of cooperation between the Office and the national judicial authorities of the non-participating Member States.

To sum up, the enhanced cooperation requires a new set of rules regarding the interaction and cooperation of the EPPO inside the Union, but free of its structure and competences. Therefore, it doesn't matter if there is a single member state that is non-participative, two or even more. The unity of the structure will be irrecoverably affected even if a single member state remains outside the European Public Prosecutor's Office.

4. The institutional structure

A hierarchical structure of the EPPO has more advantages in terms of efficiency, engaging a faster decision making process and a set of responsibilities that are much more clearly defined. The expected results would translate into significantly more convictions, as well as a better recovery of the prejudice created through defrauding the financial interests of the Union.

The institutional design of EPPO will determine its status, its prerogatives as well as its connection with other institutions at the union level. Since the first proposal referring to the establishment of this institution, launched and assumed by the *Corpus Juris*, there has been a general consensus on the necessity of its independence, in both directions: in relation to the national governments, as well as to the Union's institutions, in order to guarantee *ab initio*, a good governance and a fair *administration of the law* (Ligeti *et al.*, 2013, p. 12). Therefore, it diverges from the structure of the national systems, where the requirement of the prosecutor's independence can by no means be taken for granted: moreover, the prosecutor is generally accountable to the Ministry of Justice. Hierarchical subordination of the EPPO to any institution of the European Union or to national governments will raise serious questions about its legitimacy. The case for good governance concerns *stricto sensu*, avoiding possible political influences over the European Prosecutor's Office; the case for a fair administration of the law points to the need to avoid of any arbitrary utilisation of the powers conferred to the Prosecutor and to a greater protection of the member states in relation to EPPO decisions that might prove arbitrary. Similarly, no European institution should give instructions or exercise an effective control over the decisions of the European

Prosecutor, although there have been repeated calls for the member states' courts, rather than the European Court of Justice, to be granted the exercise of judicial control. Further, art. 3 paragraphs 1 and 2. (1) of the Commission proposal, in conjunction with art. 88 paragraph (3) TFEU are stating expressly that the authorisation and application of coercive measures will be the sole responsibility of the Member States in close cooperation with Europol, and in conjunction with art. 20 paragraph 1. (3) (a). (d) of the *Corpus Juris*, which pinpoints two aspects: *the measures relating to the notification of instituting judicial subject to authorization and those regarding the proofs do not.*

It is obvious that the objective of the Commission proposal is not to change what can be called a core feature of the Union, namely, that the latter, in itself, does not have coercive powers – as does the sovereign state – leaving them, as a compromise, to the member states (Erkelens *et al.*, 2015, p.127). This is justified by the need to achieve a balance between the independence of the Prosecutor and an effective democratic control exercised by an institution with a direct influence on citizens' rights and freedoms (Zwiers, 2011, p. 373).

Considerable attention in the context of the discussion regarding the establishment of such institutions is given to the European Prosecutor's relationship with national judicial systems, implying the need for a structural model to represent a minimum, a maximum, and an intermediate level of vertical integration.

Out of the two options - the centralized and the decentralized model for the EPPO - the European Commission opted for the latter. This is due to the fact that a fully centralised institution might not be feasible, today, given the outlook within the national judicial systems of the member states, and would undoubtedly hit insurmountable obstacles, taking into account the extensive powers granted to the Office, especially those referring to the training of national prosecutor's offices. Under the present circumstances, the institution in question will barely manage to take over the jurisdiction of the national authorities and to fulfil its objectives in an efficient manner, without having the support of the national judicial authorities (Erkelens *et al.*, 2015, p.170).

Without claiming to exhaust the entire range of theoretical models amenable to the future structure of the Office, three main models have been generally outlined in the literature (*collegiate model, centralized model, integrated model*), but a fourth was considered by the Commission: *the creation of EPPO within Eurojust* (EC, 2013, p. 32). This option involves creating a central Office within Eurojust, which would account for the structure of the European Prosecutor – Eurojust would act as a "mother agency." In institutional terms, it virtually would mean that Eurojust will literally accommodate the Office, by providing the infrastructure, framework and support services. Furthermore, Eurojust could provide the capacity and coordination relative to cross-border crimes which are prejudicial to the financial interests of the Union, and to those which are in close connection with other offences falling within the competence of Eurojust. The EPPO would have the exclusive power to conduct the investigations in cases dealing with the financial interests of the Union.



The EPPO's decision to initiate proceedings in national courts would require the approval of the College of Eurojust, which shall be composed of national members. Thus, the EPPO could not start prosecuting the suspects before the national courts, but instead would leave it to the national prosecutors, under the "lead" of the European Prosecutor.

Through this model, basically, the EPPO would become a part of Eurojust and would use its support functions (human resources, finance, IT, caseload). A limited number of staff will be transferred from OLAF to Eurojust, and the member states will have to allocate additional resources to the new institution. Finally, the role of Europol (Pradel *et al.*, 1999, p. 169) would remain unchanged: it will support Eurojust's efforts and hence those of the Office.

According to the second – collegiate model, EPPO would be structurally similar to Eurojust, so that the Office will be organised as a College of national members appointed by the member states, but with a clearer and stronger mandate for all members. The European Prosecutor's College would take most decisions regarding the investigation and prosecution of offences against the Union's financial interests committed on EU territory. A major drawback of this model is that national members would be granted more powers, as they should provide mandatory instructions to national prosecutors, as the model implies a close connection with the national judicial systems. The European Prosecutor will be directly entrusted with the task of conducting the investigation and prosecution of criminal offences, although, in practice, these activities will be coordinated by national delegated prosecutors, in EPPO's name. Eurojust's coordination function on this range of offences will be transferred to the European Prosecutor; moreover, it will create a specialised investigative department under the aegis of the new institution. The EPPO will be a legal entity separated from Eurojust, but nevertheless connected with it by the use of the latter's financial, administrative and operational resources. It also will benefit from the transfer of specialised staff from OLAF, which will provide administrative and investigative resources. While OLAF staff will continue to deal with functions that do not fall within the scope of the jurisdiction of the European Prosecutor, Europol will support the Office, in line with its ongoing general support and "intelligence" functions.

The third model, the one that has the most advantages, is the one of *integrated decentralisation*. Inspired by the principle of subsidiarity and based on the concept of decentralisation, the model advances a European Prosecutor's Office at the central level with a Chief Prosecutor who will exercise hierarchical supervision, and European Delegated Prosecutors (decentralised) belonging to the national systems and as such, located in member states, having full authority in the national legal system. The European Prosecutor will have *hierarchical power of instruction* over the delegated prosecutors.

In most cases, investigations and proceedings will be conducted at the decentralised level, but with the direct involvement of the European Prosecutor in the initiation of the investigation, and in sending the suspects for trial in national courts. Investigative measures will be conducted at the decentralised level, the led by the delegated prosecutors. A specialised investigative department at the central



level will also be created to coordinate investigative activities and, if necessary, to carry on itself investigative work, on behalf of EPPO, whose Delegated Prosecutors will in turn work with national criminal police units.

The European Public Prosecutor will be able to give instructions to the European Delegated Prosecutors, which, in turn, will cooperate with various national authorities (judicial and administrative, in particular) in order to carry out the instructions. The Office (acting through the delegated prosecutors) will be responsible for bringing the cases in the national courts. All the powers of the EPPO and those of Delegated European Prosecutors will be exerted in full compliance with the Charter of Fundamental Rights.

In this model, the European Public Prosecutor will be a legal entity distinct from Eurojust, but connected to it through the use of its operational, administrative and managerial resources. Moreover, the new institution will benefit from the transfer of specialised OLAF staff, while the rest of OLAF personnel will continue to fulfil functions that will be outside the jurisdiction of the European Prosecutor. Europol will also help in terms of analysis, general support and "intelligence".

In this model, all of the prosecutors and the rest of the staff from the Office will be recruited directly by the Prosecutor, while the Delegated European Prosecutors and the national investigators will continue to be recruited by the national authorities and dispatched to the EPPO headquarters. Consequently, the additional costs regarding transport, training, interpretation and translation will be borne by the European Public Prosecutor's Office (EC, 2013, p. 34).

Finally, the fourth, centralized model illustrates the creation of a Central Office with full legal and practical capacity to conduct investigations and prosecutions, independently of the similar activities at the national level. The investigative staff of the Office will have the prerogative to act on the ground without informing the member state's judicial authorities, except for the cases when prior authorisation is required. The EPPO staff will consist of a Chief Prosecutor, several prosecutors and staff at the central level, acting throughout the Union. The Centralized Office will act directly, by bringing the suspects before the national courts. In contrast with the collegiate, decentralised and integrated models, this will not be achieved by means of Delegated European Prosecutors nominated by the member states. All prosecutors and other personnel within the Office will be directly recruited.

The Office will be related to Eurojust (Craig and de Burca, 2008, p. 262) through organisational sharing of the latter's technical and support functions, such as HR, IT and the financial staff. A part of OLAF and Eurojust staff will be transferred to the Office to provide investigative and prosecution resources, pointing to the corresponding transfer of responsibilities from OLAF and Eurojust. Europol will provide support in terms of analysis, general support and "intelligence" (EC, 2013, p. 35).

All four options involve the creation of a close connection with Eurojust, since the Reform Treaty states that the European Public Prosecutor's Office is set up "from Eurojust". Under the umbrella of all four models, Eurojust and the Office will need to coexist and cooperate, but in a manner that takes into account the



differences in the functions and powers of each institution. Regarding the provision contained in art. 86 paragraph (2) TFEU – capable of generating numerous discussions and divergent interpretations – we briefly mention that it is preferable to adopt an interpretation based on the existence of two distinct institutions (with different powers, tasks and objectives) rather than of a logical and grammatical interpretation *stricto sensu*, which would see them merged in a single organisation, a perspective that was criticised over time (Council of the EU, 2002).

5. Judicial status and the organisation of the European Public Prosecutor's Office

By virtue of its role in providing consistency in the research activity and the prosecution of offences affecting the financial interests of the EU, the EPPO will be an independent body of the European Union with a decentralised structure and its own legal personality (EC, 2013, Regulation Proposal)

Its leadership will consist of the European Prosecutor, assisted by four deputies who will serve a 8-year term (EC, 2013, Regulation Proposal) without any possibility of renewal. The European Prosecutor will be appointed by simple majority by the Council, with the consent of the European Parliament, and may be removed from the Office in case of serious misconduct by the Court of Justice, on application by the Parliament, the Council or the Commission, institutions to which it is accountable, having to present annual reports (EC, 2013, Regulation Proposal).

In order to reduce costs and to make the criminal investigation and prosecution much more efficient, it was decided, in accordance with the principle of decentralisation that a European Delegated Prosecutor shall operate in every member state, for a 5-year renewable term. Each of them will act independently, without any obligations towards national authorities, although they will belong to the national judicial systems. The procedure for selecting and appointing the European Delegated Prosecutors requires that each member state submit a list of at least three candidates who enjoy a good reputation and a relevant professional experience at the EU level. In case they no longer fulfil the criteria applicable to the performance of their duties or they have been found guilty of serious misconduct, they can be dismissed by the European Public Prosecutor. On the other hand, should the national judicial authorities conclude that the Delegated Prosecutor is no longer professionally suitable, they are entitled to dismiss him or her only with the prior consent of the European Prosecutor.

In reality, the protection of this body from political influences was a necessity not only at European level, but also at the national one, as in most member states the prosecutors are under the authority of the Ministry of Justice. At the same time, the mechanism of protection of the member states from any arbitrary decision of the European Prosecutor should be functional, strongly asserting that no European institution should exercise any effective control over the Office; upholding the rights and freedoms of the citizens should, however, entail a minimal control over the EPPO by a EU institution.

According to art.11 of the regulation proposal of the EPPO, it has exclusive jurisdiction to investigate and prosecute offences against the financial interests of the Union. Such a jurisdiction would visibly affect the sovereignty of the member states, which would lose the right to investigate and prosecute similar acts.

The definition of "financial interests of the Union" in the draft Council regulation concerns all the revenues, expenses and assets covered, acquired by or owed to the Union budget and to the budgets of the institutions, organisms, offices and agencies established by virtue of the treaties, as well as to the budgets they manage and monitor.

However, if other offences are inextricably linked to those that fall within the scope of the Office material competence, and their joint investigation and prosecution are in the interest of a good administration of justice *in concreto*, they will be analysed together. The question of auxiliary competence becomes important in the context in which on the basis of the provisions of art. 13 of the regulation proposal in establishing the accessorial competence and in the occurrence of an eventual conflict of competences between the Office and the national authorities, the solution is not subject to any appeal (*de lege ferenda*, amending this article would be advisable). *Exempli gratia*, if an evasion crime regarding customs, worth 1 million EUR, that would involve several member states and non-EU countries, has not come to be prosecuted and convicted, and implicitly punished by any of the national authorities of the member states involved (EC, 2011).

Regarding the applicable procedural rules for the definition of competence, the option has been made for the criminal law systems of the member states. Thus, it will be left to the transposition and harmonisation mechanisms of each national public authority to stipulate the acts or omissions that affect the financial interests of the EU, as well as the subsequent sanctions. However, this offers no guarantees that, at the EU level, there will be a set of coherent and equitable rules regarding the enforcement of sanctions and the limitation period in terms of criminal liability. Consequently, there is a very high probability that, in such cases, according to the applicable provisions, criminal offenders would choose the place where to pursue criminal activity, using to their benefit the legislative vacuum.

The lack of clear statistics stating the need for the establishment of EPPO is due to the fact that OLAF, although it publishes annual reports containing relevant statistical information, does not receive enough data from the national authorities of the member states - their obligation is to report fraud in excess of 10000 EUR, which means that the offences under this threshold are not centralised at a European level (very few member states have statistics regarding the exact number of offences committed against the Union's financial interests- *exempli gratia* Romania and Poland collect this data type).

5.1. The admissibility of proofs

Of utmost importance is the identification of procedural framework on the admissibility of the evidence - in this case what rules of procedure will be applicable. One option would be to establish a combination of European law rules



and national rules of procedure, or rather a complete set of procedural rules of the European Community, in order to delimit the powers of investigation and prosecution of the EPPO. The answer lies in the willingness of the member states to "comunitise" all criminal procedures. Generally, attempts were made to avoid constructions like "supranational prosecutor's office" or "service of the European Prosecutor's Office" because they had a huge potential to create controversy and resistance among the member states.

Evidence administration and analysis will be established taking into account first of all the procedural guarantees relating to a fair trial and respect for the right to a real and effective defence. This will be a real challenge for the EPPO due to the fact that the proposal foresees a provision which ensures that evidence lawfully gathered in one member state shall be admissible in the courts of all participating member states, whether or not this is permitted in their procedural rules.

In analysing the levers to pursue judicial control of the acts of procedure adopted by the EPPO, it was motivated that, given the nature of this body, with a unique role in the European space, and in accordance with the provisions of art. 86 paragraph (3) TFEU, it is imperative to lay down special rules on the matter. However, even in the absence of such rules, it is still possible to have judicial control, as it is carried out at the level of each member state, in order to ensure a balance between the powers of the Union and the national powers. We emphasise, however, that national courts will not be able to refer the matter to the Court of Justice of the European Union to pronounce a preliminary decision concerning the assessment of the validity of acts of the EPPO (article 267 TFEU). As a matter of fact, the provisions of art. 36, in the manner in which it was formulated in the regulation proposal, stipulate that in a situation where national law becomes applicable in accordance with this regulation, such provisions shall be deemed for the purposes of the Union's legislation, art. 267 of the Treaty (EC, 2013, Regulation Proposal).

In analysing the hypothesis that one can assimilate the status of EPPO with the relevant national institutions, we can clearly distinguish that any acts of criminal investigation and prosecution by the Office will go beyond the control of the Court, with the opportunity, however, to approach it with preliminary questions concerning the interpretation of the regulation, including from the standpoint of the Charter of Fundamental Rights.

Once established, the national authorities will be requested by the European Public Prosecutor's Office to carry out investigations under its authority, meet deadlines, and ensure full cooperation and coordination with EPPO. Although the European Commission has announced its intention to also introduce, in parallel, a regulation reforming Eurojust, the legal and practical issues such as the resolution of conflicts of jurisdiction, admissibility of evidence, and defence rights are still topics which the initiative must also address. As Jan Albracht, Greens/EFA group spokesperson on justice and home affairs, stated defence rights are vital in "the importance of ensuring uniform and consistent rights for defendants so legal standards cannot be circumvented by picking and choosing the legal regime most favourable to a case" (Jan Albracht, 2015).



Conclusions

The legitimate goal of establishing a novel European actor, a European Public Prosecutor's Office, is subordinated to the obligation of the member states to combat criminal activities detrimental to the European Union and to effectively penalise fraud against the financial interests and the budget of the Union.

The prospect of the entry into force of this proposal puts the member states in a position to accept tacitly that later it could expand, *volens nolens*, EU jurisdiction to other offences with a pronounced cross-border character. In fact, does the EU want the creation of a supranational prosecutor's office, a real European Public Ministry with extensive powers and, consequently, an advanced level of integration on Pillar III?

In the event of a failure, the alarm signal will be perceived, perhaps leading to the adoption of a new regulatory framework – an effort that would be conducted so as to head off the opposition from member states.

To sum up, the European Public Prosecutor's Office will have an important role in taking on, assessing and monitoring the cases within its competence. Eurojust will continue to work, on the basis of its competence, independently from the EPPO and will be of substantial use in the cases management, together with the competent national authorities, and in bringing cases to the appropriate national courts. Finally, Eurojust works with the national authorities in the member states in a collegial and horizontal manner, facilitating an enhanced coordination and cooperation.

According to the experience of OLAF, offences against the financial interests of the Union are increasingly less confined to a single member state and tend to have a cross-border dimension. In these circumstances the European Public Prosecutor's Office would operate at a supranational level and would be, by its very nature, a *federal instrument*, given the federal character of the EU budget. As a consequence of the principle of subsidiarity, we observe, however, that the federal dimension of the institution itself is mitigated by a set of factors such as: the adoption of a decentralized model; the establishing of European Delegated Prosecutors that will remain national prosecutors under the control of national judicial systems; the special competence of the national courts and, ultimately, the judicial control exercised by the national courts.

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LIVING STANDARDS IN EUROPE. A REGIONAL VIEW

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Abstract: *The European Union aims to be a financial and economic convergent area, yet there still are notable disparities among regions. The goal of this study is to highlight the degree of synchronization of 275 NUTS 2 regions in European countries, between 2002 and 2011, with an emphasis on the impact of the late 2000's economic crisis. In order to focus on the living standard, the chosen variables were the disposable income of the household, the employment rates of adults (20-64 years old) and the regional GDP per inhabitant, which were inserted in a panel data model. Results proved that the regional synchronization is highly influenced by geographical proximity. A notable anomaly concerns capital regions, where, although the regional GDP is higher, disposable income per inhabitant is lower due to higher living costs, not sufficiently compensated by income.*

Keywords: disposable income; living standards; NUTS 2; capitals

Introduction

The European Union is aiming towards an increasingly convergent status, yet important disparities still plague the dream of reaching a common denominator. Out of these disparities, although the financial ones are easier to measure, the social ones, particularly the living standards, are the most alarming, since they have a highly negative impact on day to day living.

While economic and fiscal targets can sometimes be artificially obtained, the social element is harder to cover up, especially during unstable times, like those triggered by the recent economic crises of the late 2000's.

In the recent years a preeminent literature has begun to flourish on the effects and consequences of the economic and financial meltdown, yet the number of regional studies is limited to a few (Longford *et al.*, 2010).

In this context, the scope of the present paper is to assess the convergence of the living standards in Europe, at a regional level, in order to draw up lessons to be learned from the better performing regions, which need to diffuse towards the less convergent areas.

The main research question is "How can each European region perform better from the individual's standpoint?"

This is a new approach since it has a humanistic motivation. Instead of judging from a country's perspective, at a national level, our study is focused on the

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individual's situation, therefore all the variables will make reference to the inhabitant. The objectives deriving from such a goal include matters like regional development, job market, poverty level and the balance between the region's economic development and the individual's perceived living standard. Thus, a secondary research question could be: "Is living in a wealthy region a guarantee of a better living standard?"

The motivation of such a study is given by the Europe 2020 directive which is meant to be a wake-up call after the crisis. This vision focuses on more jobs and better lives. It is concerned with Europe's capability to deliver smart, sustainable and inclusive growth, to find the path to create new jobs, delivering high levels of employment, productivity and social cohesion.

The results of our study could help break down into achievable targets for every region the national targets of the Europe 2020.

The remainder of this paper is structured as follows. The next section presents noteworthy opinions and ideas regarding the issues of living standards and the impact of the crisis, as depicted by the international literature, section 2 comprises the sample and the data description, as well as the methods employed in the analysis, while section 3 highlights the result of the empirical approach. The last section presents the authors' conclusions, the limitations of the research and the future study directions.

1. Literature highlights

Living standards in Europe have increased together with the convergence of the European Union, yet there are still notable disparities both in real terms as well as in the inhabitant's perception about their situation (Kenny, 2005). The literature consists of two important strands: the first one focuses on identifying the degree and depth of the problem and the second one highlights possible solutions to counter-act the outcomes of the crisis in vulnerable domains.

The late 2000's crisis had a devastating impact on multiple social indicators including education, pensions, social security and, most importantly healthcare.

As Dagdeviren (2014) proved, the 'rising income inequality' is one of the primary causes of the 2008 crisis. His paper, which focused on 15 European countries that were members of the Union before the expansion in 2004, showed that market inequality increased in most countries by using Gini Coefficients. If this kind of inequality, which is the result of output, labor and financial markets is felt in the living standards or it could also be classified as a primary cause of its deterioration.

A regional study focusing also on poverty and inequality in Europe belongs to Longford *et al.* (2010) who studies personal income distribution within regions as opposed to per capita income distribution in order to give a deeper insight into regional disparities.

The problem of poverty in Europe is also addressed by Guagano *et al.* (2013) who prove that there is a relevant association between self-perceived poverty and both household socioeconomic characteristics and social capital. Such

an endeavor is aimed at central and local governments to help them define economic and social goals which should receive more attention by policies striving to eradicate poverty.

The literature does not only focus on identifying the possible negative outcomes of decreasing living standards during the economic crisis, but also on possible solutions, or, at least, counter measures, to diminish losses.

A clear demarcation appears between poorer (Corti and Scheiber, 2014) and rich countries (Bronner and de Hoog, 2012), as some recent studies demonstrate.

While western European rich countries react to the unfolding crisis by smart budgeting, giving up on luxury holidays and increasing vigilance towards unjustified expenses (Bronner and de Hoog, 2012), CESEE inhabitants have to react more drastically, by cutting back everyday consumption, reducing the amount of money they set aside, increasing the number of work hours to make end meet at the end of the month. In the CESEE countries there is clear evidence of less borrowing, less loans and an overall decrease of spending, not always in a cautious way, but more in a forced manner, dictated by external conditions.

The problem of poverty in Europe is also tackled by Ginnenken (van Ginneken, 2012) who focuses on two vulnerable categories, namely the children and elderly. His study concludes that the Guaranteed Minimum Income policies for adults of working age are effective ways to reduce poverty, but that they may have to be complemented by employment guarantees. Partial basic incomes for the elderly and children may be a good solution for dealing with poverty among these two main groups.

As regards the instruments used to study the living standards, the literature points towards income as a reliable variable, more useful when considered as disposable income and put in relation with the GDP/capita (PPP) (Altman, 2013).

Although some researchers (Orazio and Padula, 2010) state that income tells only part of the story, this is due to the fact that income itself is a resultant of numerous other factors which could have a direct impact on the living standards.

This study aims to bring new insights in the regional studies area, focusing on the effects of the crisis on living standards in Europe, after 2008.

2. Statistical approach

a. Variables and data

The empirical data employed by this analysis was retrieved from the Eurostat database and covers a period of 10 years, between 2002 and 2011, including the debut and unfolding of the late 2000's crisis. The study covers 275 NUTS 2 regions, thus putting together an array of 2750 data points for each of the 3 variables, namely disposable income as a proxy for living conditions, regional GDP (PPS per inhabitant) and the employment rate for the age group 20-64 years.

The previously mentioned variables are to be understood according to their definition by the Eurostat methodology:



- Disposable income of private households by NUTS 2 regions - PPS (based on final consumption) per inhabitant - is the balance of primary income and the redistribution of income in cash. These transactions comprise social contributions paid, social benefits in cash received, current taxes on income and wealth paid, as well as other current transfers. Disposable income does not include social transfers in kind coming from public administrations or non-profit institutions serving households.
- Regional gross domestic product (PPS per inhabitant) by NUTS 2 regions - is an indicator of the output of a country or a region. It reflects the total value of all goods and services produced less the value of goods and services used for intermediate consumption in their production. Expressing GDP in PPS (purchasing power standards) eliminates differences in price levels between countries. Calculations on a per inhabitant basis allow for the comparison of economies and regions significantly different in absolute size. GDP per inhabitant in PPS is the key variable for determining the eligibility of NUTS 2 regions in the framework of the European Union's structural policy.
- Employment rate of the age group 20-64 by NUTS 2 regions - % represents employed persons aged 20-64 as a percentage of the population of the same age group.

Although some studies (Orazio and Padula, 2010) advocate that income does not explain in detail the situation of living standard disparities, it is a good starting point in dissecting the causes of European regional divergence.

The selected variables are also in line with Europe 2020 program, which aims to reduce poverty, increase the employment rate of the selected age group.

b. Statistical method

The set of data was subject to a panel data analysis which is the extension of the simple regression analysis in two dimensions, a temporal element and a cross-sectional factor, which can be influenced either by fixed or random effects.

The use of the panel data method is motivated by the fact that it has the potential of assessing the effects of the economic crisis in each region by evaluating the deviation from the average outcome.

Econometric model researchers Hsiao (1986) and Baltagi (1995) proved that panel data models produce superior results and reduce biases in the predicted outcomes, as well as providing an increased number of data points, thus the degrees of freedom.

In this paper the fixed effects method was employed, which treats the constant as belonging to a certain group, providing the equation for fixed effect method as:

$$y_{i,t} = \alpha + \beta x_{i,t} + \mu_i + v_{i,t}$$

where, μ_i is the specific effect of each unit and $\nu_{i,t}$ denotes the ‘remainder disturbance’.

In order to assess the influence of regional GDP an employment on the disposable income of each region, a panel data analysis model was employed.

The proposed model is:

$$Disp_income_{i,t} = c + \beta_1 GDP_reg_{i,t} + \beta_2 Employ_reg_{i,t} + \mu_i + \nu_{i,t}$$

The equation is relevant if the estimates for the coefficients β_1 , β_2 are significantly different from 0.

3. Discussions

We further proceed to the estimation of the parameters and their significance by resorting to Least Squares (LS). The proposed model is:

$$Disp_income_{i,t} = c + \beta_1 GDP_reg_{i,t} + \beta_2 Employ_reg_{i,t} + \mu_i + \nu_{i,t} \text{ which becomes:}$$

$$Disp_income_{i,t} = 3896.9 + 0.3 \cdot GDP_reg_{i,t} + 43.88 \cdot Employ_reg_{i,t} + \mu_i + \nu_{i,t}$$

Although all the p-values are significant for both models, the value of R^2 points out that the Fixed/Fixed, model is more appropriate than the no effects model. The fixed/fixed effects model accounts for 98% of the change in disposable income, while the no effects model only explains 63% of the variation, thus bringing statistical proof of the fact that the region has overwhelming influence on the income, therefore on the living standard.

Table 1. Equation parameters estimations

Variable	No effects	Fixed/Fixed
$GDP_reg_{i,t}$	0.34 (0.0001)	0.30 (0.0001)
$Employ_reg_{i,t}$	87.61(0.0001)	43.88 (0.0001)
c		3896.945 (0.0000)
R^2	0.63	0.98
Variable	No effects	Fixed/Fixed

Source: own processing in EViews 7.0

There are notable differences also regarding the importance of the employment rate of people aged 15-64, in the simple model each percent of the employment rate could modify the annual disposable income by about 88 Euros, while in the fixed/fixed model this change is only of 44 Euros.

The model states that the average disposable income of the studied regions between 2002 and 2011 was about 3897 Euros, with notable differences among regions.



A simple k-means clustering of the regional effects, reveals that the results naturally form 3 clusters.

The first cluster, which includes very negative values, ranging between - 7447 and - 3791, consists out of 24 regions. These regions cover all the regions in Romania, Bulgaria, Estonia, Latvia, and some regions in Hungary, known to be among the poorest in Europe, therefore the living standards and their proxy, the disposable income, are also expected to be low.

Introducing these values in the model, it follows that the disposable income in these regions is nonexistent, or even negative, which means that a wide percentage of the population does not have access to disposable income, even worse, they have large amounts of debt they have to pay.

Paradoxically, this cluster includes as well the capital regions from The Czech Republic, UK, Slovakia and Denmark together with Belgium. The explanation for these regions' inclusion in this cluster is that these regions have a significantly higher GDP than the other regions in their countries, while the disposable income is not directly proportional, therefore, the resulting difference has to be corrected.

The second cluster includes the mildly negative values for regional effects for 89 regions, ranging from -3533 to -34.

This group consists mostly of central and southern European countries like Poland, Hungary, The Czech Republic, Serbia, Slovakia, Greece, Spain, Portugal and the small Nordic country Lithuania. The regions in these countries are similar and their living standards are comparable as well. This could be a result of the fact that these countries have a similar convergence factor as regards their membership to the European Union.

Netherlands and Norway are also included in this cluster together with Luxembourg. The explanation in their case is that although the regions in these countries experience a higher disposable income, this is highly correlated with the GDP and less correlated with the employment, as people in these countries choose to work less and put more emphasis on the quality of life, by valuing leisure time.

The odd members of this cluster consist of FR93 (Provence), DE50 and DE60 (Bremen and Hamburg) which have very high disposable income rates, a situation similar to the paradoxical one described for the first cluster.

The last cluster, which includes positive regional effects on disposable income is the largest group, including 161 items. The regions from this third cluster experience the highest living standards conditions. This group is also extremely homogenous as it includes the majority of the regions of the western European countries, especially those of the older members of the EU, including Germany, France, Belgium, Italy, UK, Austria, as well as Spain and Norway, which, although not a EU member has close relations and common goals.

Conclusions

This paper set out to assess the convergence of living standards among European NUTS2 regions, during a full business cycle, in order to identify if the

European Union's desiderate of similar living conditions for its inhabitants is realistic and slowly under construction.

The paper also wanted to classify the regions according to similar behaviors and to see if, within the same country there are odd-behaving regions or if the European countries are homogenous with respect to regional disparities of living standards.

The findings indicate the existence of 3 distinct clusters of regions, ranging from very low living standards, like in Romania and Bulgaria, youngest members of the EU, to an average situation on the central and Southern countries, up to high living standards attained by the core countries of the EU (Germany, France, Belgium, Italy, UK, Norway, Spain).

A paradox of the model appears for regions where the living standards are very high, like the capital regions of UK, Czech Republic, Netherlands, Belgium, and Norway. In these regions, either the disposable income is high, but the GDP is even higher, either the living costs are so high, they are not sufficiently compensated by income.

The implications of such a study are related to EU social convergence targets for 2020. Firstly, in order to increase the overall living standards of a country, the low performing regions should first aim to synchronize with the better performing neighboring ones through knowledge exchanges, aimed at increasing the employment rate by using the full potential of the region. Secondly, the regions with the highest living standards could serve as examples for those still struggling with high poverty rates and could even start mentoring programmes for the latter, using effective channels like foreign direct investments to overcome development barriers by capital infusion and creating workplaces.

The limitations of the study are concerned with the availability of data, as not all the European countries have relevant data for the selected period or even longer.

Further research could include other significant variables for the problem of living standards, including life expectancy, access to healthcare and education, infant mortality and sustainable growth.

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Annex

Table 2. Regional fixed effects and cluster membership

Region	Effect	Cluster	Region	Effect	Cluster	Region	Effect	Cluster
BE10	-7447.38	1	SE12	-1071.77	2	UKH1	1700.77	3
CZ01	-6847.19	1	NL13	-1063.42	2	FR21	1712.87	3
UK11	-6550.63	1	NL42	-1058.22	2	Dec-00	1715.03	3
NL11	-6021.45	1	NL22	-954.42	2	ITH3	1725.50	3
LV00	-5824.63	1	PT15	-927.13	2	DEA1	1749.64	3
BG41	-5814.97	1	PT20	-816.60	2	BE35	1776.16	3
SK01	-5365.56	1	ES42	-750.58	2	ITI3	1793.31	3
RO32	-5301.77	1	ES70	-749.48	2	DE23	1797.76	3
RO31	-5201.49	1	UKM5	-701.93	2	DEA2	1814.47	3
RO21	-5197.17	1	NO04	-692.91	2	AT34	1838.39	3
RO12	-5108.98	1	NO05	-679.74	2	UKG2	1860.30	3
RO11	-5062.90	1	ES61	-653.46	2	BE34	1884.62	3
BG33	-5057.13	1	NL23	-640.49	2	FR62	1888.24	3
RO41	-4979.52	1	IE01	-587.51	2	ITI2	1921.43	3
RO42	-4949.61	1	EL22	-533.40	2	DEE0	1930.74	3
DK01	-4908.07	1	UKG3	-495.82	2	DED5	1946.63	3
BG31	-4864.50	1	ES52	-478.70	2	UKJ3	1969.17	3
RO22	-4836.70	1	ES43	-457.23	2	DE92	1970.20	3
EE00	-4833.75	1	EL43	-393.17	2	ES22	1974.12	3
BG34	-4801.52	1	DE50	-374.97	2	FR71	1981.94	3
BG42	-4659.80	1	PT17	-360.17	2	EL30	1995.34	3
BG32	-4639.01	1	BE21	-136.82	2	AT31	2007.26	3
HU10	-4261.02	1	FR91	-34.72	3	FR52	2011.72	3
HU22	-3791.49	1	ES11	39.86	3	UKD1	2041.05	3
LU00	-3533.34	2	ITG1	56.13	3	ITH1	2066.07	3
PL32	-3449.89	2	UKE4	82.21	3	UKK4	2070.86	3
HU21	-3337.26	2	ES53	144.15	3	DE80	2072.05	3
DK04	-3315.53	2	ITF6	172.71	3	FR42	2130.87	3
LT00	-3169.58	2	ITF3	202.15	3	FR23	2162.67	3
FI1B	-3159.94	2	FR92	209.32	3	ITC4	2192.49	3
CZ03	-3131.90	2	UKD3	212.05	3	DE22	2205.53	3
PL34	-3124.91	2	EL24	218.17	3	ITI1	2207.63	3
HU32	-3123.03	2	AT13	245.32	3	UKL1	2236.03	3
PL52	-3118.01	2	ITF1	248.20	3	DE12	2236.03	3
CZ06	-3097.51	2	NO06	295.42	3	DE72	2244.34	3
DK03	-3097.03	2	EL11	305.05	3	BE23	2245.85	3
CZ08	-3092.43	2	DE71	311.02	3	DED2	2247.63	3
PL31	-3091.43	2	ES23	350.96	3	FR82	2264.91	3
PL21	-3083.34	2	EL25	410.80	3	FR81	2269.50	3
HU33	-3079.92	2	EL13	459.29	3	FR61	2273.23	3
CZ04	-3069.23	2	ITG2	487.38	3	FR83	2329.00	3
SE11	-3065.85	2	ITF4	500.05	3	DEG0	2337.38	3
SK02	-3028.11	2	ITF5	566.66	3	FR53	2373.16	3
PL12	-3026.76	2	ES30	589.67	3	DE11	2390.86	3
CZ05	-2931.93	2	ES51	603.81	3	FR41	2398.20	3
DK05	-2922.24	2	ES41	685.22	3	ES21	2400.24	3
PL63	-2889.67	2	ITF2	694.72	3	FR43	2404.02	3

Region	Effect	Cluster	Region	Effect	Cluster	Region	Effect	Cluster
PL33	-2862.65	2	ES24	768.67	3	FR25	2423.38	3
PL43	-2861.87	2	NO07	793.30	3	DE26	2448.26	3
PL62	-2834.03	2	FR94	819.02	3	UKF3	2456.31	3
IE02	-2832.65	2	UKL2	851.33	3	ITH4	2456.76	3
CZ07	-2807.54	2	EL23	855.52	3	DEA3	2488.76	3
HU23	-2782.68	2	EL12	858.66	3	DE40	2489.07	3
SK04	-2745.13	2	UKE1	869.14	3	AT22	2577.41	3
PL41	-2712.53	2	ES13	879.08	3	DE21	2610.77	3
PL61	-2702.74	2	UKC2	892.15	3	FR22	2665.88	3
HU31	-2689.99	2	FR10	896.50	3	FR24	2671.28	3
PL51	-2669.17	2	UKD6	902.40	3	DED4	2675.28	3
FR93	-2579.71	2	AT32	966.60	3	UKK3	2684.59	3
SK03	-2518.98	2	UKD4	1095.34	3	DE14	2693.71	3
NL32	-2511.60	2	DE30	1095.41	3	ITC1	2705.09	3
PL11	-2460.61	2	EL41	1118.17	3	FR26	2715.10	3
NL31	-2354.86	2	BE25	1130.96	3	DEA4	2718.35	3
CZ02	-2349.05	2	ES64	1158.73	3	AT21	2723.21	3
DE60	-2295.53	2	UKM3	1192.87	3	BE31	2743.68	3
SE33	-2231.59	2	NO03	1197.14	3	UKG1	2820.98	3
FI20	-2192.15	2	UKD7	1202.58	3	UKE2	2870.04	3
PL42	-2189.20	2	UKE3	1206.94	3	FR72	2878.38	3
NL41	-2140.09	2	UKF2	1209.98	3	DE13	2983.59	3
SI02	-2137.85	2	UKJ1	1222.74	3	FR63	2986.39	3
NO01	-2063.91	2	FR30	1229.83	3	BE24	2995.13	3
NL21	-2026.38	2	EL21	1244.81	3	ITC3	2997.13	3
PT30	-1968.76	2	UKN0	1253.27	3	ITH5	3025.77	3
SE32	-1892.18	2	ITH2	1259.23	3	UKJ4	3119.83	3
FI19	-1882.68	2	NO02	1263.60	3	UKH2	3129.98	3
PL22	-1851.27	2	UKK1	1264.09	3	DE25	3143.21	3
PT11	-1849.11	2	UKF1	1274.37	3	ITC2	3157.88	3
PT16	-1780.37	2	BE33	1289.33	3	DEA5	3208.39	3
NL33	-1746.80	2	AT33	1310.83	3	DE27	3227.82	3
SE23	-1735.72	2	UKM2	1363.49	3	UKK2	3232.61	3
SE31	-1673.34	2	ES63	1390.86	3	DEB3	3349.26	3
SE21	-1665.66	2	UKC1	1400.05	3	DEF0	3396.32	3
NL34	-1608.20	2	ES12	1418.58	3	DE24	3421.21	3
NL12	-1493.24	2	UKM6	1488.19	3	DEB2	3739.04	3
PT18	-1481.99	2	ITI4	1514.12	3	DEB1	3809.23	3
DK02	-1441.46	2	BE22	1547.38	3	UKH3	3834.09	3
SE22	-1366.26	2	DE73	1567.35	3	AT12	4155.56	3
FI1D	-1295.68	2	DE94	1574.53	3	DE93	4273.43	3
FI1C	-1288.78	2	DE91	1673.50	3	UKJ2	4286.69	3
EL42	-1225.93	2	EL14	1674.33	3	UKI2	4314.09	3
ES62	-1220.27	2	BE32	1684.59	3	AT11	4376.31	3
SI01	-1210.83	2	FR51	1685.56	3			



REGIONAL DEVELOPMENT IN EU'S BORDER AREAS: CROATIA AS A REGIONAL MODEL FOR DESTINATION BRANDING STRATEGY IN BOSNIA AND HERZEGOVINA

Maja PULIC*

Abstract: *The newest member joined the European Union (EU) with a well-conceived destination branding strategy. Croatia is becoming more and more identifiable world-wide by creating a distinctive brand in order to maintain a solid positioning as a destination place. As competition is becoming more intense, an increasing number of countries struggle to make themselves visible in the global tourism market. Tourism dominates the Croatian service sector, where the bulk of the tourist industry is concentrated along the Adriatic Sea coast. Although not very successful in public diplomacy, a complex system of coordinated activities that Croatia implemented resulted in strengthening the perception and image of the overall destination brand. This research aims at exploring the Croatian destination branding strategy as a potential model for its closest neighboring country, Bosnia and Herzegovina (BIH). Sharing a common history, borders and people, BIH and Croatia represent a unique comparative case study for regional spill-over development between the EU and non-EU countries. Therefore, this study takes into account what has been done so far on both sides regarding destination branding strategy, thus exploring what lessons could be learned from Croatia and what is the best future regional approach for creating a BIH's destination brand.*

Keywords: regional development; destination branding; public diplomacy; tourism; regional spill-over

Introduction

The idea that countries behave rather like brands is by now fairly familiar to most marketers, public diplomacy practitioners and governments. During the last decade, the notion emerged as a meaningful extension of traditional soft power, a way for a country to boost its public image through a variety of advertising techniques, hoping to create more favorable conditions for foreign investments, tourism and trade, and social and political relationships with other countries, according to Anholt (2006). Thus the practice of branding involves various state

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and non-state actors, experts in policy making, public diplomacy and marketing. The brand represents the connection between a buyer and a brand. Lesile de Chernatony and Malcom McDonald, as the most important thing in defining brand, mention the added value that matches the buyers' needs most closely: a successful brand in an identical product, service, person or place, augmented in such a way that a buyer or user perceived relevant, unique, sustainable added value which matched their needs more closely. However, not only products can or should be branded. Geographic locations can also have the added value boosted by their brand. In this case, the power of branding is in making people aware of the location and then linking desirable associations. Increasing mobility of both people and business and growth in the tourism industry has contributed to the rise of place marketing (Keller, 2003). It is precisely in this context of tourism that a geographic location is, or includes, a destination brand. A destination brand can be defined as the sum of perceptions that someone has about a place.

Destination branding is most concerned with visualization and symbolism. The ultimate aim of a destination brand is to ensure that people's experience of the destination is a positive one. Today, every country, city or a region must compete with every other for its share of the world's commercial, social, political and cultural transactions, according to Anholt (2006). As in any other busy marketplace, brand image becomes crucial as, how Anholt (2009) points, almost nobody has the time, the patience or expertise to understand the real differences between the offering of one country and another. What happens is that people fall back on their fundamental beliefs and prejudices about those countries to help them make their decisions. Just as in the commercial 'marketplace' that 'brand image' provides a shortcut to an informed buying decision (Anholt, 2009). Anholt further analyses the consequences of a bad brand, claiming that countries with a reputation of being poor, uncultured, backward, dangerous or corrupt will find that everything that they or their citizens try to achieve outside their own neighborhood is harder, while countries that are lucky or virtuous enough to have acquired a positive reputation find everything easier. Their brand goes before them like a calling card that opens doors, creates trust and respect, and raises the expectation of quality, competence and integrity (Anholt, 2009). Therefore, it can be said that the reputation of a country has a direct and measurable impact on every aspect of its engagement with other countries and peoples, as well as a critical role in its economic, social, cultural and political development.

It can be argued that in a globalized world, many individual countries had seen each other as competitors for tourists or investors, however, there are cases when joining efforts to advance common interests are worthwhile. Countries can group together to promote the region or the neighboring countries together. Szondi (2007) gives an example of the European Quartet, which is a joint effort for cooperation between the so-called 'Visegrad group' countries: the Czech Republic, Hungary, Poland and Slovakia. These countries' national tourism organizations grouped together in 2003 to present the four countries bundled into a single tourist product into a single tourist product in overseas markets, such as USA, Japan, China and Brazil (Szondi, 2007). In fact, regional cooperation boosted tourism



development and attracted visitors for educational purpose. Precisely for this purpose the Croatian destination branding strategy needs to be analyzed as a potential model for its closest neighboring country, Bosnia and Herzegovina (BIH). Sharing a common history, borders and people, BIH and Croatia represent a unique case study for regional spill-over development between the EU and non-EU countries. Therefore, this study takes into account what has been done so far on both sides regarding destination branding strategy, thus exploring what lessons could be learned from Croatia and what is the best future regional approach for creating a BIH's destination brand.

1. Branding Croatia as a tourist destination: good practices from the Neighborhood

As the tourism industry grows, so does a competition between tourist destinations as they compete to attract visitors. The concept of destination branding offers countries a framework in which they can differentiate themselves from other destinations. The promotional efforts of a destination branding strategy are the first points of contact many potential visitors and investors have with the destination and this is precisely when perceptions about the countries are formed. Furthermore, destination branding strategy helps a country to overcome crisis in the past, so it is not surprising that soon after Croatia gained its independence from Yugoslavia in 1990s started working on tourism promotion, thus building up the country image and distancing itself from post-conflict environment. The re-emergence of tourism has been facilitated by the Croatian government, which aimed at transforming the concept of Croatia through the development of a layer of value-added attractions and infrastructure (Ateljevic, 2006). This layer was based on the 'stimulation acceleration of the privatization process with general emphasis on the development of entrepreneurship, particularly in the area of the so-called economy of small scale'. Furthermore, it is important to recognize that from the onset of tourism development, Croatia was vigilant of the EU's future demands. Thus, all the changes in the structure of tourism administration have been aligned with broader policy initiatives facilitating economic transition within the European Union's agenda. Following the phase of reconstruction, Croatian government started to develop the long-term strategy of sustainable development, thus aligning the future policies with ecological demands. This kind of progressive policy development was going hand in hand with the EU's broader environmental agenda. The significant tourist investment made by the central government represented a different trend from the post-Communist reduction of the role of the state elsewhere in CEE (Light, 2000; Hall, 2004).

Changing policies have been soon translated into national marketing and branding by Croatian tourist board. The growth of Croatian tourism on a global level was the result of improving the infrastructure and creating differentiation of a certain destination. Generally, a good tourism strategy matters primarily because it is a prerequisite for a faster tourism development. Furthermore, it ensures the future of tourism management and encourages investors to implement their plans.

Investors are especially important for a small country like Croatia, and a good tourism strategy generally leads to acquiring funds from the European Union. Before accessing the EU, Croatia wanted to position itself within the EU as a country with a prominent tourism identity. However, the country experienced a lot of difficulties, primarily because products and services were not innovative enough to appeal to potential visitors, there was insufficient investment activity and growth was based on the expansion of private households and accommodations. However, in spite of these competitive adversaries, Croatian tourism has been achieving better results than its Mediterranean competitors.

One of the most important lines of tourism progress in Croatia was developing both long-term and short-term strategies. After a series of mergers of national tourist companies in the 1990s and 2000s, tourist brands started to be perceived as a part of national tourist offer assets that have to be maintained and invested in. The Ministry of Foreign Affairs has established a brand building task force in Croatia. Its purpose was to promote the country's image and attract foreign investors with quality tourism thus distancing themselves from mass tourism. Although the country experienced crisis and the national branding strategy started with the highly politicized environment, Croatia demonstrated an example where a state actor took a main role in destination branding strategy. Arguably, this was possible because of the EU's role and tourist offers the country had from the start. Unlike other countries, which in a highly politicized environment reconsider a state role in the future branding strategy and instead employ a private actor, Croatia's destination branding strategy developed upon the initiative of the Ministry of Foreign Affairs, with a support from international consultant firms¹.

Furthermore, one of the key ingredients for a successful destination branding strategy advanced destination branding strategy. Advertising has benefited the Croatia's tourism industry, with visitor arrivals reaching 11 million in 2012, according to the Ministry of Tourism. According to the Anholt (2007), the key part of the government's job is to try and build a reputation that is fair, true, powerful, attractive, genuinely useful to their economic, political and social aims, and which honestly reflects the spirit, genius and the will of the people. To have a management strategy means to know exactly what talents, qualities and advantages we possess, to know how to use them and show them to the world. With regard to multilateral cooperation, special attention was paid to the EU as the most important foreign trade partner. Therefore, branding in Croatia was also seen as crucial to the state because it has realized that timelines for acceptance into the European Union and ability to compete against their neighbors for investment, in part depends on how they are perceived by more developed European countries (Duvnjak M., Wave magazine, 2006) .

¹ Simon Anholt advised the republic of Croatia and worked closely with heads of state, heads of government, ministers, private sector and civil society leaders in a series of one-day policy planning workshops (Anholt, 2009).



2. Bosnia and Herzegovina: need for a different perspective

To help the visitor choose from among recreational choices, destination branding has become a strategic marketing component with considerable importance in promoting the discovery of issues and areas that will help in promotion of the post-conflict country's image.

Hence, one should recognize the importance of this marketing tool in newly independent Balkan states where travelers' perceptions may be outdated and inaccurate because of the images of wars and ethnic barriers that prevailed in these areas throughout the 1980s and early 1990s. This significance was confirmed by the Department for the analysis and planning of the Ministry of Foreign Affairs of Bosnia and Herzegovina, which in the beginning of 2006 conducted an analysis on the topic of 'Image of BiH in the World'. During the preparations for this analysis, the Department held numerous consultations with the diplomatic and consular representatives in the country in order to obtain more relevant data and information. Following are the conclusions obtained from the results of the analysis:

1. The image of Bosnia and Herzegovina significantly affects its overall development and its position in international affairs
2. The image of Bosnia and Herzegovina in the world is significantly worse compared to the real situation in the country
3. The Ministry of Foreign Affairs, as well as the practice of diplomacy in Bosnia and Herzegovina, have a very important role in creating a positive image of the country.

It is a fact that the image of any country significantly affects its overall development and that diplomatic service, and that the government and the companies have a primary role in creating a positive image of that country. However, it seems that destination branding activities in Bosnia and Herzegovina are rather distant from the domestic authorities' concerns.

Therefore, it is evident from the practice that until present day, Bosnia and Herzegovina has not employed significant efforts in establishing its destination brand. Through day-to-day interaction with citizens and foreigners, BiH works on promotion of a good image, yet a clear strategy is missing. As in many other countries, BiH's Ministry of Foreign Affairs is preoccupied with the promotion of cooperation with neighboring countries, establishing diplomatic and bilateral relations, promotion of interest and development possibilities of BiH's economy. The Public Relations office in the Ministry only provides detailed information about all activities performed at home and diplomatic missions abroad.

The promotion of a positive image of BiH as a country that is attractive to foreign investors is more of a mission of the Foreign Investment Promotion Agency (FIPA) of BiH. This state-level agency aims at attracting foreign direct investment through various projects. FIPA is very much involved in the promotion of investment opportunities by advertising the most attractive investment sectors, as well as distributing various publications on the investment procedure in BiH. In fact, FIPA presents tourism as the most promising sector in BiH. They too

recognize that culturally, politically and socially, the country has one of the richest histories in the region. Unlike in Croatia where the Ministry of Foreign Affairs started working on branding strategy, in BiH the branding practice is still very much fragmented.

Bosnia and Herzegovina is regionally and internationally renowned for its natural beauty and cultural heritage inherited from six historical civilizations, its cuisine, winter sports, its eclectic and unique music, architecture, but also for its internationally famous events such as Sarajevo Film Festival and Sarajevo Jazz Festival, both the largest and most prominent of their kind in Southeastern Europe (Inside Film Magazine).

Despite of all this, Bosnia and Herzegovina, as many other developing countries in transition, is just initializing the process of establishing its own brand. This is problematic because of one simple development – BiH does not work very hard on nation branding, and is hence under a great danger of putting itself in a position that other countries or peoples will brand it. Furthermore, the image of BIH in the world is still undermined by the recent war, while its multicultural spirit, natural beauties, film, sports and its historical heritage are not utilized enough. The activities of destination marketing in BIH do not mirror real potentials of the country, and it is thus not surprising that the image of BIH lags behind other countries in its neighborhood².

When it comes to the travel and tourism industry, national image is fundamentally important. The tourist board needs to 'sell the country' to a vast international audience of ordinary costumers which leads to a logical conclusion that a destination with a powerful and positive image needs to do less work and spend less money on promoting itself to the marketplace, because the marketplace already believes what is said. Nevertheless, destinations with powerful brands also have a difficult task, something that destinations with weak brands do not have and that is the preservation of an already established brand.

It can be noticed that BIH has indisputable natural beauties and particular destinations that attract tourists, as well as preferable geographic position³. Nevertheless, a situational analysis made by the Chamber of Economy of BIH shows that most visitors still come from neighboring countries (B&H Export Council, n.d.). In other words, most tourists in BIH are people that were already familiar with the country. This means that the promotion of the country is not very successful or it does not reach foreign audiences far enough, beyond regional

² According to the FutureBrand report, Republic of Croatia is on 42nd place, Slovenia on 63rd, while BIH is lagging on the 82nd place.

³ Bordered by Croatia to the north, west and south, Serbia to the east, and Montenegro to the southeast, Bosnia and Herzegovina is almost landlocked, except for the 20 kilometres of coastline on the Adriatic Sea surrounding the city of Neum. In the central and southern interior of the country the geography is mountainous, in the northwest it is moderately hilly, and the northeast is predominantly flatland with moderate continental climate. Bosnia and Herzegovina remains one of the last undiscovered natural regions of the southern area of the Alps, with vast tracts of wild and untouched nature attracting adventurers and nature lovers.



borders. Furthermore, statistical data from 2010 shows that although visits are increasing (5-7% annually), BiH still attracts the least number of tourists, in comparison to neighboring countries: BiH with slightly more than 300.000 visits annually, Croatia with 9.5 million, Montenegro with 2.5 million and Serbia with 950.000 (B&H Export Council, n.d.). According to the Chamber's report, the primary challenge of BiH as a tourist destination is the development of a marketing strategy which will increase competitiveness in this sector (B&H Export Council, n.d.). To achieve this it is important to remove administrative barriers, stimulate service uniqueness and quality, develop an annual tourism strategy, improve infrastructure and accessibility to key destinations, as well as develop a specific BiH destination brand (B&H Export Council, n.d.).

Thus far, serious issues and gaps remain. Currently, the biggest problems can be seen in the deficiency of investment, underdeveloped infrastructure, as well as lack of professional branding strategy and statistical data that would help in determining what country's weaknesses are. Furthermore, each tourism sector attempts to create some sort of a brand for itself, but this is not efficient nor sustainable enough as if it would be if they would venture possible brands through specific branding strategies. Hence, things are being done, but because of the lack of specific theorists and branding strategy, it is very rare that any branding project sustains.

When it comes to the travel and tourism industry, national image is fundamentally important. The tourist board needs to 'sell the country' to a vast international audience of ordinary costumers which leads to a logical conclusion that a destination with a powerful and positive image needs to do less work and spend less money on promoting itself to the marketplace, because the marketplace already believes what is said. Nevertheless, destinations with powerful brands also have a difficult task, something that destinations with weak brands do not have and that is the preservation of an already established brand. BiH has arguably the best potentials in the field of tourism, which has an influence on all other service industries like the food industry, architecture and civil engineering, as well as financial services and infrastructure. Tourism represents a possibility of altering the image of Bosnia and Herzegovina in a positive direction. Although images take a long time to form and in fact we do not know all the factors influencing them, they can be destroyed fairly quickly. Of course, in case of countries with stable images and reputations in the international scene, this happens much more slowly than in case with lesser known countries. Furthermore, the image of a country can change and improve, but this process requires a lot of effort and skill. In case of Bosnia and Herzegovina, the image did not even have time to develop, firstly because of the post-conflict situation and secondly because of the state's lack of interest for such course of action. The main challenge for Bosnia and Herzegovina is to distinguish great potentials in the tourism sector and recognize that tourism may be the loudest voice in destination branding strategy. This is why Bosnia and Herzegovina should pay more attention to its destination branding strategy in this sector. Branding strategy in the tourism sector should be left to professional policy makers, media and PR experts. Considering the administrative complexity as well

as bad practice of state services, opening of private companies that would deal with a clear destination branding strategy should be a priority.

3. Regional development in EU's Border Areas: spillover effect

Faced with the global competition, states need to continue to enhance their offer of sustainable and high-quality tourism products, playing on their comparative advantages that encompass a highly-skilled workforce, technology, rich and well-documented cultural and historical heritage and close political and economic relationships. With regards to the latter, developing tourism initiatives on a regional basis is gaining increasing importance within the European region. Jointly developed action plans, common branding and marketing strategies have the potential to greatly strengthen the competitiveness of tourism destinations within a region, hence a joint strategic positioning of the different regions on the international tourism map can bring clear benefits for each country individually and for the region as a whole. Such cooperation efforts are facilitated when a specific geographical area is shared and as such, BIH and Croatia represent an advantageous area for regional spill-over development between the EU and non-EU countries.

Generally, EU benefits for the country include increased liberalization and competition leading to greater productivity and growth, harmonization of legislation, ease of cross-border trading, educational mobility, new skills development and training programmes, guidelines for nature and heritage conservation and image enhancement. Bosnia and Herzegovina can improve its position in the regional market by constructing tourism of a higher quality with innovative concepts. For this purpose, the marketing strategy for tourism should primarily be oriented toward the European market. In order to create a competitive advantage in relation to other destinations in the region, BIH should, first of all, be clearly positioned.

Not only do destinations become more competitive, but also government tourism agencies have to act more in an entrepreneurial manner, not only attracting visitors and investment companies, but also facilitating tourism partnership as evident in regional spill-over phenomenon. Regional development can also be seen as a process that operates within two complementary characteristics (Young, in Turnock, 2005). The first is the linkage with the exterior, including the goods, services, capital and information. The second is the level of internal differentiation including skill development and organizational development (Young, in Turnock, 2005).

Discussing the relationship between tourism and regional development, Shaw and Williams (1994) examined three aspects of tourism: (1) tourism is a product which must be consumed at the production point; (2) most form of tourism are highly temporal (seasonal), and (3) tourism is an industry subject to restructuring (development of a variety of forms of tourism). Within the destination region, we can distinguish a list of criteria to define tourist destination zones:



- The region should have a set of cultural, physical and social characteristics that create a sense of regional identity.
- The region should contain an adequate tourism infrastructure to support tourism development.
- The region should be larger than just one attraction or one community
- The region should contain existing attractions or have the potential to support the development of sufficient attractions to attract tourists.
- The region should be capable of supporting a tourism planning agency and marketing initiatives to guide and encourage future development.
- The region should be accessible to a large population base (Gunn 1979, Smith 1995).

Both Croatia and Bosnia and Herzegovina share a set of cultural, physical and social characteristics that create a sense of regional identity, including historical similarities, territorial borders and common languages. With regards to both countries, tourism developments can be constructed to act as growth poles to help stimulate regional development. In selecting tourism as a growth pole, governments identify a site that is deemed suitable for sustaining a form of tourism development. Due to its geographical position and its proximity to the rapidly developing tourism sector on the Croatian coastline, both countries have a distinct joint tourism potential in both urban and rural centers. A lot of tourist resources create the possibility of different forms of health/wellness tourism in addition to the well-developed seaside tourism on the Adriatic coast, as well as religious tourism which is becoming very popular.

Few concluding remarks

Competitive advantages both Croatia and Bosnia and Herzegovina would have if they joined efforts in destination branding are beneficial for both sides. One of the main ones is the effect of spillover in the tourism sector, which arises when tourists who visit one country also visit another one. The effect would not be beneficial only for the two neighboring countries, but also for the overall image that the EU is projecting. In fact, the interconnection in this particular region brings about the different perception of that one in post-conflict states, thus building up both international and domestic image of countries.

The joint tourism offer by both countries is already a part of the future debate primarily because of opportunities for new investments and acquiring EU funds. Government funding of regional tourism can be vital to establishing new projects and partnerships. International tourism development policy for regional development is demonstrated through the EU where the most significant financial interventions for tourism development are structural funds and cohesion funds (Davidson and Maitland 2009, in Sharpley and Telfer 2014). These financial instruments are used with the EU's Regional Development Policy to strengthen economic and social cohesion within the EU and to reduce the disparities between the regions of the EU.

In conclusion, although both countries share a distinctive possibility for tourism regional spill-over and economic opportunity for new investments, it has to be recognized that different political environments require different actors which would implement destination strategy. This study explored the Croatian tourism strategy and discovered that the Ministry of Foreign Affairs was the main state actor implementing branding and tourism strategy which was going hand in hand with the EU's overall environmental policy. On the other hand, the case of Bosnia and Herzegovina demonstrates that it is very difficult to provide a coherent and consistent strategy a highly politicized environment. This is why it is becoming extremely important that a private agent deals with the future destination branding strategy, after which the regional cohesion could be witnessed.

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SMART SPECIALISATION IN THE LESS ADVANCED REGIONS. WHAT ARE THE KEY CHALLENGES?

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Abstract: *A new element that Cohesion Policy brings for 2014-2020 is the need for states and regions to draw Research and Innovation Smart Specialisation Strategies (RIS3) as a pre-condition to access EU funds. The novelty and the flexibility (due to the diversity of the regions from EU) of the concept of Smart Specialisation makes it ambiguous and can lead to a lack of understanding among the regional policymakers. Also, there are questions related to the purpose of the RIS3 for the Cohesion Policy and to the adequacy of the RIS3 precondition for less advanced regions that lack capacities to deliver innovation policies. This article aims to explore the role of the Smart Specialisation concept in the context of the new Cohesion Policy and to analyze the possible implications of RIS3 in the less advanced regions. The analysis is conducted using the economic development approach and the policy perspective. The research method includes a content analysis of 12 preliminary versions of Smart Specialisation Strategies presented by regional policy makers within the Smart Specialisation Platform (a network created by European Commission in 2011 with the aim to provide information, methodologies and expertise to the states and regions).*

Keywords: innovation; smart specialization; regional development

Introduction

Smart Specialisation, a concept born as a reaction to EU-US productivity gap, is now a core element of the Cohesion Policy 2014-2020. Is the Smart Specialisation a bridge between innovation and cohesion or it just subordinates the equity to efficiency? One reason for the hegemony of innovation discourse is the “coalition” between cohesion and competitiveness. At the same time, it seems that competitiveness dominates and cohesion loses the institutional support at the European level. Even if the notion of Smart Specialisation is quite new and the academia still discuss its opportunity and possible implications in terms of relating with other policy areas, European Commission made the absorption of Cohesion funds dependent on the designing of Research and Innovation Strategies for Smart Specialisation (RIS3).

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The official definitions is provided in the Regulation No. 1303/2013, the legal basis for European Structural and Investment Funds: *“smart specialisation means the national or regional innovation strategies which set priorities in order to build competitive advantage by developing and matching research and innovation own strengths to business needs in order to address emerging opportunities and market developments in a coherent manner, while avoiding duplication and fragmentation of efforts; a smart specialisation strategy may take the form ok, or be included in, a national or regional research and innovation (R&I) strategic policy framework”* (art.2 of Regulation no. 1303/2013)

Like all the new concepts, there are arguments and critics raised by the academia. Specifically, the subject concerning the opportunity of Smart Specialisation in less advanced regions represents an important issue. A possible source of inequity is the lack of administrative capacity for less developed regions to design and implement proper innovation strategies. Also, RIS3 tool could favor the advanced regions and increases the competitiveness gap between the EU regions. The convergence as a consequence of economic integration depends on the patterns of industrial and trade specialization (Pascariu and Tiganasu, 2013).

Thus, the article aims to explore the role of the Smart Specialisation concept in the context of the new Cohesion Policy and to analyze the possible implications of RIS3 in the less advanced regions. In the first place, the literature on Smart Specialisation will be reviewed especially with focus on challenges and possible impact on cohesion. In addition, 12 preliminary versions of RIS3 strategies presented by more developed and less developed regions within the Smart Specialisation Platform will be analyzed in order to find what are the problems identified by the regional policy makers related to the implementation of these measures.

Literature review

The emergence of the Smart Specialisation concept

The Smart Specialisation concept was proposed by a group of experts, Knowledge for Growth (K4G), created in 2005 at the initiative of the Commissioner for Science and Research. The argument for the Smart Specialisation represents the EU-US competitiveness gap and the need for a better prioritization in the allocation of the regional resources. Smart Specialisation is defined by the authors as the “regional prioritization of a group of economic sectors and technology areas potentially competitive in international markets and generators of new activities with competitive advantage over other locations” (Foray *et al.* 2007). OECD’s definition is “smart specialisation is an industrial and innovation framework for regional economies that aims to illustrate how public policies, framework conditions, but especially R&D and innovation investment policies can influence economic, scientific and technological specialisation of a region and consequently its productivity, competitiveness and economic growth path” (OECD, 2013). Also, it is stressed the difference between Smart Specialisation and Smart Specialisation

Strategy (RIS3). The first notion is defined as “a virtuous process of diversification through local concentration of resources and competences in a certain number of new domains that represent possible paths for transformation of productive structures”, and the second means “putting in place a political process aimed at facilitating this dynamic when it cannot develop spontaneously” (Foray, 2014). The diversification plays an important role for the convergence, being the next phase after specialization and sustaining the growth and economic convergence at regional level in long term (Pascariu and Tiganasu, 2013).

Foray, one of the authors of the concept, argues that Smart Specialisation is a tool for any regions in the context of a broader interpretation of innovation. The RIS3 has the mission to connect the R&D and innovation to the sectoral structure of economy and this process is applicable worldwide (Foray, 2011). According to Giannitsis (2009), the concept of smart specialisation demonstrates a capacity of policy adjustment for development of innovative competitive units, cluster and/or regions; and involves public interventions for concentrating resources and financial mechanisms which can create positive social externalities in the future. Ortega-Argiles (2012) claims that the Smart Specialisation concept is important for both leading regions and for followers, but the first ones are advantaged because of the capacity to accumulate bigger resources and the research and economic infrastructure. Consequently, a legitimate discussion was started about the opportunity of Smart Specialisation as a tool for Cohesion policy.

One of the reasons to include the Smart Specialisation in the regional policy lies in the stated role of Cohesion Policy for 2014-2020, that of contributing to the achieving of the Europe 2020 objectives: to deliver smart, sustainable and inclusive growth. The argument is that Smart Specialisation will lead to a European economy based on knowledge and innovation, will support the transition toward a resource-efficient, low-carbon economy, will strengthen territorial cohesion and create economic opportunities for better jobs and social innovation (Foray *et al.*, 2012). Also, another argument for Smart Specialisation is related to its potential regarding both stronger and weaker regions. For the less developed regions, the approach is to build on the regional strengths and to achieve a long-term impact, for the more developed regions that already have comparative advantages, the approach is to target specialized diversification and smart upgrading through general-purpose application technologies (GPT) or other innovation activities (Foray *et al.*, 2012).

The challenges of Smart Specialisation

Morgan (2013) identifies three types of challenges related to Smart Specialisation: the conceptual, the operational and the political one. In the first place, the conceptual challenge consists of the ambiguity of the concept and what it implies for the theory and regional policy. In addition, the operational challenge concerns the translation process from theory into policies. Equally important is the political challenge, meaning the way to ensure that the different levels of governance is mobilised to put the Smart Specialisation in practice.



Pessoa (2014) is questioning the new paradigm for regional policy in European Union, with the Smart Specialisation as a key element. Moreover, he analyzes the relationship between innovation and cohesion (efficiency vs. equity) concluding that Smart Specialisation is not a bridge between these two because innovation policy implies "creative destruction" and divergence, while cohesion involves convergence. Also, the pre-condition to design Smart Specialisation Strategies (RIS3) could represent a „bureaucratization" of the idea. An already observed effect is the „copy-paste" process of designing strategies by some regions with less innovative capacity (Pessoa, 2014). On the other side, some regions "have all the necessary elements for such a strategy, but have not felt the need to encompass this within a formal documents" (Charles *et al.*, 2012, p. 8).

Iacobucci (2012) provides an analysis of the preliminary strategies presented in the Smart Specialisation Platform and concludes that there are at least three sources of uncertainty that characterized RIS3: its scope, the variety versus specialisation discussion, the top-down versus bottom-up discussion. The first one regards the question whether Smart Specialisation implies just R&D and innovation or represents an extensive development strategy. If we look at the actual discourse of EU regional policy, we can notice that RIS3's focus is on innovation, technology and science. Benner (2013) considers that this orientation narrows the potential of Smart Specialisation in the regions that are not associated with the high-tech industries and that can build comparative advantages in industries like tourism or retail. The second one points to the contradiction between the specialisation targeted by the RIS3 and the industry variety that is needed in promoting innovation. The third source of uncertainty represents the approach in designing the strategy, top down or bottom-up. Even if the policy guidelines indicate the "entrepreneurial discovery" that is a bottom-up approach, the same guidelines ask for creating a vision and objectives, a process specific for the top-down approach (Iacobucci, 2012). This issue is pointed also by McCann and Ortega-Argiles (2011, p.21) indicating "the fact that in the original policy concept it is the entrepreneurs and not the regional policy-makers who are assumed to be best equipped for identifying the smart specialisation opportunities therefore also poses an additional policy-design challenge".

Therefore, the need for European Commission is to examine the contributions of the academia and the first steps of the regional and national policy makers in order to identify the problems and to adapt or clarify the policy guidelines. In the following sections I will analyze the regional policy makers' side to see what are the key issues raised by them regarding the implementation of RIS3.

Method

This article aims to explore the role of the Smart Specialisation in the context of new Cohesion Policy and to analyze its possible implications in the less advanced region. The analysis is conducted using the economic development approach and the policy perspective. The research method includes a content

analysis of 12 preliminary versions of Smart Specialisation Strategies presented by regions within the Smart Specialisation Platform (a network created by European Commission in 2011 with the aim to provide information, methodologies and expertise to the states and regions). I have chosen to include in this analysis 6 documents submitted by less developed regions (GDP/capita below than 75% of the EU average) and 6 documents submitted by more developed regions (GDP/capita higher than 90% of the EU average) in order to group the data collected and to find if there are particularities in approaching the RIS 3 for less advanced regions in comparison with the more developed ones. The 12 proposals that are listed in the Annex 1 were chosen from a list of 38 documents presented in various peer learning meetings in the 2012-2014 period. From this list, just 19 of them have explicitly indicated the key challenges of which I chose 6 documents from less developed regions – Algarve (Portugal), Centru (Romania), Moravian-Silesian region (Czech Republic), Nord-Est (Romania), Pomorske (Poland), Sicily (Italy) and 6 documents from more developed regions – East Sweden, Centre Region (France), Emilia-Romagna (Italy), Lower Austria, Mazovia (Poland), Piemonte (Italy). The small number of analyzed preliminary versions of RIS 3 doesn't allow the generalization, but indicates some trends and common issues, centered on 7 groups of key challenges: 1) issues related to SMEs; 2) diversified economy; 3) weak cooperation between R&D and business; 4) placing innovation on the market; 5) financing RIS3; 6) lack of skills (technology and international marketing); 7) governance of RIS3.

Results

Even if the analyzed documents are just preliminary versions of RIS3, they are useful to identify the problems emerging in the design process of Smart Specialisation Strategies. Along to the fact that most of the regions selected very broad areas of specialisation (e.g. ICT), there is no analysis of relations between these chosen areas and these areas are not put in the context of neighboring regions.

The results show a noticeable difference between the two groups regarding the claimed key challenges. The main issues of the less developed regions are the weak cooperation between the R&D institutions and firms and the financing of the strategy, while for the more developed regions the problems are related to the SMEs and the diversified economy.

For the less developed regions the major challenge is the realization of a better connection between the business and R&D institution, as well as with the universities. Another problem faced by these regions is related to the financing of the strategy, from both public and private resources, a problem which extends to even a more general aspect as the financing of the research-development field. Also, other key-challenges are the lack of competences in technology and international marketing and the governance of the strategy without any formal mechanisms to ensure its application.



Table 1. Key challenges in the design process of Smart Specialisation Strategies

SMEs		
<i>*development of SMEs in medium-sized companies;</i>	++++	
<i>**domination by very small companies; ***need to improve participation of SMEs in R&D programs</i>		
Diversified economy		
<i>*diversified economy without strong leadership; **no strong sectorial specialization; ***fragmentation of productive system</i>	+++	
Weak cooperation between R&D institutions and business		
<i>*poor connection between RIS actors; **need for closer links between Higher education, public research and regional economy;</i>	+	++++
Placing innovation on the market	+	
Financing RIS3		
<i>*stimulation of private investments in the RIS3 process;</i>		+++
<i>**setting up a sustainable financing system to support RIS3;</i>		
<i>***R&D expenditure (public and private)</i>		
Lack of skills		
<i>*technology; **international marketing</i>		++
Governance of RIS3		
		++

In the case of the more developed regions, the diversified economy issue, without a sectorial specialisation in some cases or with a fragmented production system in other cases, confirm the question posed in theory about the specialisation vs. variety and the need for these regions to rather focus in technology areas, not on the economic sectors. An interesting finding is the issue of SMEs in some more developed regions, where the economies are strongly dependent on SMEs, which don't have the capacity to invest in research, to create innovation and to become competitive on the global market.

Conclusions

Analyzing the policy guidelines and the documents produced by the European Commission or at its initiative, Smart Specialisation seems to be the most powerful and most appropriate instrument that can help the states and regions to use their full growth potential. But beyond the discourse from Brussels it is important to review the literature and regional documents to see what are the foreseen problems and challenges that can occur in the implementation phase of Smart Specialisation Strategies.

For instance, one of the main characteristics of the Smart Specialisation concept is the bottom-up approach, the "entrepreneurial discovery" that involves the firms, universities and research institutions with the aim to find the regional strengths and to build comparative advantages on them. But one of the issues raised

in theory and by policy makers from some less developed regions is the weak cooperation between academia and business sector. The questions here is if RIS3 will contribute to overcome this problem or the Smart Specialisation will be just a form without substance in most of the less advanced regions.

The flexibility of the concept allows decision makers at the regional level to select the economic sectors or technology areas and the measures and tools to build the Smart Specialisation. At the same time, even if it is flexible, the RIS3 represents a "bureaucratization" of the idea of specialisation that implies the risk of "copy-paste" in the strategy development process and the less advanced regions trying to imitate the innovation leaders.

Another issue raised in the literature and noticed in the proposals of strategies is related to the scope of the Smart Specialisation. The question is whether Smart Specialisation implies just innovation and research or represents an extensive regional development strategy. If it is just about innovation and R&D, there is a risk to be ineffective for some less advanced regions that don't have high tech industries and their comparative advantages can be built in tourism or retail sectors. But if it is a broader regional development strategy, its essence will be altered and it will overlap with other programmatic documents of the regions.

Moreover, the discussion about the innovation vs. cohesion raises a question about the opportunity to use the Smart Specialisation as one of the main tools of the Cohesion policy. Nevertheless, the critics from the academia side and the challenges presented by the regional policy makers must serve to improve the Smart Specialisation instrument.

When we compare the key challenges raised by the more developed and by the less developed regions we can see important differences. On the one hand, the more developed regions claim a strong dependence of their economies on SMEs and diversified economy. On the other hand, the less developed regions raise the issues regarding the weak cooperation between R&D and firms and the strategy financing. These problems influence the designing and implementation phases of Smart Specialisation and need to be addressed in order to obtain the best prioritisation of resources.

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Annex 1 - The list of analyzed documents

No.	Document	Region	Source
1.	"Centre Region – France Towards a RIS3 strategy" (Pisa, September 2012)	<i>Centre Region, France</i>	<i>Smart Specialisation Platform.</i> Available on the Internet at : http://s3platform.jrc.ec.europa.eu/cases Accessed 07.01.2015
2.	"East Sweden Region"	<i>East Sweden, Sweden</i>	<i>Smart Specialisation Platform.</i> Available on the Internet at : http://s3platform.jrc.ec.europa.eu/cases Accessed 07.01.2015
3.	"Emiglia-Romagna: Towards a RIS3 strategy" (Strasbourg, December 2012)	<i>Emilia-Romagna, Italy</i>	<i>Smart Specialisation Platform.</i> Available on the Internet at : http://s3platform.jrc.ec.europa.eu/cases Accessed 07.01.2015
4.	"Lower Austria: Development and implementation of RIS3 priorities" (Norrköping, April 2014)	<i>Lower Austria, Austria</i>	<i>Smart Specialisation Platform.</i> Available on the Internet at : http://s3platform.jrc.ec.europa.eu/cases Accessed 07.01.2015
5.	"Mazovia: Towards a RIS3 strategy" (Potsdam, November 2013)	<i>Mazovia, Poland</i>	<i>Smart Specialisation Platform.</i> Available on the Internet at : http://s3platform.jrc.ec.europa.eu/cases Accessed 07.01.2015
6.	"Towards a RIS3 strategy – Piedmont Region"(Vaasa, May 2013)	<i>Piemonte, Italy</i>	<i>Smart Specialisation Platform.</i> Available on the Internet at : http://s3platform.jrc.ec.europa.eu/cases Accessed 07.01.2015
7.	"Algarve: Towards a RIS3 Strategy" (Faro, July 2013)	<i>Algarve, Portugal</i>	<i>Smart Specialisation Platform.</i> Available on the Internet at : http://s3platform.jrc.ec.europa.eu/cases Accessed 07.01.2015
8.	"Schita detaliata strategie de specializare inteligenta"	<i>Centru, Romania</i>	<i>ADR Centru.</i> Available on the Internet at : http://www.adrcentru.ro/Lista.aspx?t=StrategiaSpecializareInteligena Accessed 07.01.2015
9.	"The Moravian-Silesian Region, Czech Republic: Towards a RIS3 strategy" (Crete, September 2013)	<i>Moravian-Silesian, Czech Republic</i>	<i>Smart Specialisation Platform.</i> Available on the Internet at : http://s3platform.jrc.ec.europa.eu/cases Accessed 07.01.2015
10.	"North-East Region of Romania" (Novi Sad, April 2014)	<i>Nord-Est, Romania</i>	<i>Smart Specialisation Platform.</i> Available on the Internet at : http://s3platform.jrc.ec.europa.eu/cases Accessed 07.01.2015
11.	"Pomorske Region: Towards a smart specialization?"	<i>Pomorske, Poland</i>	<i>Smart Specialisation Platform.</i> Available on the Internet at : http://s3platform.jrc.ec.europa.eu/cases Accessed 07.01.2015
12.	"Sicily ... towards a RIS3 strategy" (Faro, July 2013)	<i>Sicily, Italy</i>	<i>Smart Specialisation Platform.</i> Available on the Internet at : http://s3platform.jrc.ec.europa.eu/cases Accessed 07.01.2015



THE INFLUENCE OF CULTURAL VARIABLES ON SUSTAINABLE DEVELOPMENT. AN ANALYSIS IN THE EUROPEAN CONTEXT

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Abstract: *Economic and social cohesion policy is the most important of EU policies to mitigate inequalities in economic development between member states, which tend to increase in the context of globalization. For this reason it becomes increasingly important to identify the causes of underdevelopment of lagging countries or regions, by analyzing the influence of economic, socio demographic, cultural, institutional and political variables on growth and development. Economic development is an evolutionary process in which people / society is the purpose and means, causes and effects thereof. The sustainable development must be an anthropocentric one, because the human factor has the decisive role in ensuring its success. In nowadays the economic progress of lagging countries or regions dramatically depends on their ability to harness the potential of creativity, skills and abilities of the human factor, by promoting those cultural values that can contribute to the higher growth. The development can be boosted when the population is driven by a strong work ethic, fierce desire to learn from the experiences of other countries, the attachment to the principles of quality and professional excellence, etc., and all this are closely related to the cultural matrix of the country. This article aims to identify the cultural aspects with a major impact on national or regional economic development and to provide an analysis of the implications of cultural differences between EU countries on disparities in development. In order to achieve these objectives will be used data on the situation of development indices (HDI, Legatum Prosperity Index, etc.) and regarding the situation of some cultural variables in European countries, offered by the World Values Survey.*

Keywords: culture; sustainable development; development indices; European context

Introduction

The increase of inequalities in the world economy has led to the intensification of debates regarding the economic disparities between states, their

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component regions and, social groups in order to identify the economic and social factors and phenomena leading to this state of things (Gustafson and Johanson, 1997). The surveys carried out on the dynamics of regional disparities have shown weak tendencies for convergence between the EU regions (Barro and Sala-i-Martin, 1991 and 1992; Armstrong, 1995), interregional inequalities are quite big even in the small counties (Felsenstein and Protnov, 2005), and the free market has led to the increase of inequalities between the developed regions and the poorly developed ones (Malul and Bar-El, 2009). In these conditions, more and more authors have tried to study the factors determining the increase of regional inequalities, and of all these the influence exerted by culture. The national/regional cultural aspects influence the economic environment (Freytag and Turik, 2007) and are, in their turn, influenced by the evolution thereof, and the cultural variables have a significant impact upon the increase of inequalities in the distribution of income (Malul *et al.*, 2010).

The interest for the study of the influence of some non-economic factors belonging to the socio-cultural system on the regional economic development and for the adoption of some economic policies that may take into account culture as a development factor has increased lately due to the recent evolutions in the world economy determined by the phenomena of economic integration and globalization (Ohmae, 1995). These phenomena have caused the approaches of economic growth and development based on the production factors to diminish their importance in favor of some approaches that take into consideration the role of entrepreneurial behavior and spirit and innovation when explaining the economic success, in other words the relationship between entrepreneurial culture and economic development (Martin and Sunley 1998; Borza, 2012).

The era of globalization and European economic integration has become more and more an era of renewal and revitalization of regional economies. The development of regional internal markets has encouraged regions to specialize more and more in those economic sectors that have comparative advantages. The European Committee has considered that the advantage of such a trend consists in the extension of subsidiarity principle to the concept known as „l'Europe des regions" (Beugelsdijk, 2010).

Economic development is an evolving process in which people/society represents the goal and means, the cause and effect of this process. The process of sustainable development must be an anthropocentric one since the human factor has the determining role in providing the success thereof. In the current international economic conjuncture, the economic progress of countries and regions lagging behind radically depends on their capacity to valorize the potential of creativity, skills and competences of the human factor, to promote those cultural values that may contribute to the acceleration of economic growth. The process of development may be stimulated when the population of the country or region is animated by strong labor ethics, the powerful desire to learn from the experiences of other people, the attachment to the principles of quality and professional excellence etc., and all these are tightly connected to the cultural matrix of a country.



This article aims at identifying the aspects of the national or regional cultural framework having a major incidence on the economic development and making an analysis of the implications of cultural differences between the EU countries on the development discrepancies. To attain such objectives we will use data related to the situation of development indices of the European Union countries (IDU, Legatum Prosperity Index, Global Competitiveness Index etc.) and the situation of some cultural variables in the European countries offered by World Values Survey.

1. Literature review

The rapid economic growth of some developing countries in recent years may be considered as an effect of some cultural factors, but this is difficult to demonstrate in the conditions of reasoning of neoclassic economists. Some development economists have argued with facts that the economic development cannot be explained without paying tribute to the cultural factors. However, there are opinions according to which the effect of the “invisible hand” of culture on development has only been shown but not validated from the economic viewpoint.

In his research regarding the factors that contributed to the economic growth worldwide and the course of history, David Landes has reached the disarming conclusion according to which “if we can learn anything from the history of economic development this is the fact that culture makes the difference” (Landes 1999). In other words, some countries evolve more rapidly than others and consequently they are richer than others because their cultures, more precisely their cultural contexts are more favorable to growth.

The inequalities in the economic development of countries and regions may be justified by factors related to the cultural context and not only by the differentiated endowment with technical capital or progress, especially in the conditions of liberalization of markets and circulation of labour, capital and knowledge. Thus, aspects related to the social and cultural context such as the open attitude towards the ideas come from the exterior, the entrepreneurial culture and innovation, training, the qualities of the regional human capital, such as the capacity to identify and valorize the opportunities offered by the market, the entrepreneurial spirit, the open attitude towards risk-taking belonging to the economic behaviour, the attitude towards work, the ethical behaviour and trust, the propensity for saving money and investing it in economic activities, the open attitude towards the transfer of advanced technologies and new knowledge, the social behaviour and involvement into the life of community or development projects of common interest acquire a fundamental importance in the development process.

The idea that cultural aspects have a determining role for the progress and increase of a country's wealth is not a recent one. Thus, sociologist Max Webber (1864-1920) supported the idea of “protestant ethics” promoting the virtues of hard work and accumulation of wealth which made possible the spectacular economic growth registered by the countries of Western Europe as of the 16th century. The



possibility for cultural differences between countries or regions (and the system of values, convictions, the prevalent attitudes in a society) to be at least partially responsible for the differences of economic development has recently made researchers ask themselves whether the rapid economic development of some countries could be justified by cultural aspects. Thus, the fast economic progresses of some countries from the SE Asia such as Taiwan, South Korea, Singapore, China might be explained by the sharing the so-called “Asian values” (Weil, 2007).

Culture can be defined as a process of “mentality setting” or a mental framework resulting from the values, beliefs, symbols and social ideals shared by the members of a community or social group (Triandis, 1995). This process of “programming” mentalities starts early in life (Hofstede, 1980), it is influenced by the institutional framework and leads to the formation of some behavioral models that manifest a relative stability and continuity over time (Hofstede, 1980; Mueller and Thomas 2001). According to the researches carried out, culture influences a vast range of economic behaviors such as the decision to become an entrepreneur more than someone’s employee, the acceptance of multinational firms, the manifestation and development of trust among employees, and the control methods (Audretsch *et al.*, 2007) etc.

Culture includes all aspects and activities carried out in a certain space: the values shared by the community members, beliefs, traditions, economic activities lying at the bottom of community welfare. In the conditions of a more increased globalization, it is regarded more as an active force in the economic and social reproduction and a distinctive factor that trigger the increase of competitiveness of a region in the world markets (Clifford and Marcus, 1996). Some authors have formulated opinions according to which socio-cultural and behavioral factors have a decisive importance in the processes of national/regional development more than the traditional attributes of economic geography: distance, concentration, resources, etc. (Putnam *et al.*, 1993; Tiganas *et al.*, 2014).

Culture may be regarded as a factor that generates economic development under two aspects: an instrument or a resource that may be used in the context of economic sectors (culture as a factor contributing directly to GDP increase) and a component of the environment where economic agents carry out their activity which exhibits aspects that stimulate and potentiate their efforts in the direction of development. In the first case, we refer to the material components of one country’s or region’s culture that may be valorized for commercial purposes, and in the second case we speak of a set of non-material characteristics (social, moral) that may favour or hinder economic operators’ initiatives and the entire development process. As for the effects upon the economic development, we may affirm that not only does culture represent a determining factor by itself, but it has some characteristics of the cultural context.

Society’s opening to the new ideas coming from the exterior is an aspect underlined by those who studied the historical evolution of the economic development process. Thus, some countries have registered rapid economic progresses by adopting some open attitudes towards ideas, technologies, forms of political, economic and military organization from the exterior: the European



countries after the protestant reform (the 16th century), Japan starting from the second half of the 19th century and the countries from South-East Asia starting from the second half of the 20th century (registering an unprecedented technological emulation in history). Other countries that registered a high level of development registered a decline due to the rejection of ideas come from other cultures or political systems: China in the period 1500-1900, the Arabic and Islam countries and the socialist countries (Weil, 2007).

The attitude towards hard/intense labour shows representative cultural differentiations. In many cultures, including European ones, there were hostile attitudes towards labour, and it was regarded rather like a “necessary evil” (in the Greek classical culture labour was considered as reserved to slaves). Sociologist Max Weber considers that this “dedication towards intense and hard work” and the positive attitude towards the accumulation of wealth explains, at least partially, the economic development of the regions having a population predominantly protestant in Europe.

The propensity to saving or spending money is regarded as an important factor for development in the context of many development theories and models. In the postwar period, the countries that had the highest rates of saving and implicitly high paces of development were the countries from the east and south-east of Asia (Japan, South Korea, Taiwan, Singapore, Hong-Kong), which have cultural customs strongly influenced by China. From here we get the idea that a common cultural element might be Confucianism that promoted the “virtues of diligence and parsimony”. The studies carried out in the USA or Canada on the immigrant communities are not relevant for several reasons: those who emigrate do not reflect correctly the culture they abandon and do not represent the essential aspects of it (maybe they do not feel very attached to the cultural values of their country of origin). Moreover, the cultural values acquired by allegiance to the culture of origin may suffer cultural influences from the receiving country and those who emigrate have a different attitude towards risks and the sacrifices necessary to have access to a better life (Carol *et al.*, 1999).

The importance of trust for the development of the business environment and economy as a whole was highlighted by prominent economists who said that the difficulty to find trustworthy persons you know you can rely on is a major obstacle in the way of development of the economic activity (John Stuart Mill) and that most of the economic lagging existing in the world may be justified by the lack of trust (Arrow, 1974). To study the economic importance of differences in terms of the level of trust, we analyzed the way in which this correlates to the level of investments. The data showed a positive and strong relationship between the level of trust registered and the invested output.

Social capital, defined by the system of relationships that the individuals belonging to a society establish between them and the tendency manifesting within this network to support each other for the attaining of objectives and tasks, is a factor identified by sociologists and economists as determining for the level of trust of a society. One of the important effects of social capital is that of improving the functioning of authorities and institutions, especially of those elected by voting.



Based on a studies carried out, Robert Putnam affirmed that in the last 40 years the level of social capital in the USA has reduced continuously as a result of several factors such as the physical extension of urban centres or the free access of population to the audio-visual means (Putnam, 2000).

Social capacity highlights social and cultural characteristics allowing a community to valorize the economic opportunities as much as possible (Abramovitz, 1986). In Abramovitz's vision, in the process of economic growth the poorly developed countries which have sufficient social capacity are capable to valorize better the opportunities offered in the interactions with the developed economies by transfers of technology, know-how, trade and capital flows.

The social capacity of a country or region may be appreciated based on several elements: the experience of population in the organization and management of enterprises, the capacity to valorize the advantages of market economy by specialization and trade, the mentality of population compatible to the empirical science (studying the absolute relevance of cause-effect relations as compared to those based on superstition and magic), and a special perspective that concentrates on the importance of terrestrial life.

Author David N. Weil (2007) analysed the connection between Adelman-Morris index (1961) and the level of revenue per capita in the period 1960-2000 for several countries and he showed a strong correlation between them. His conclusion showed that the countries characterized by higher residual values of social capacity registered higher paces of economic development (South Korea, Japan, Thailand), and the countries having small or negative residual values of social capacity increased much less from the economic viewpoint (Cameroon, Madagascar, Venezuela). From here we have the positive and strong correlation between the residual component of social capacity and the successive economic development.

An important component of culture is *learning/training*. Thus, more the members of a community having a specific culture are ready and capable to learn from the experiences and opportunities offered by environment and the surrounding world, more the respective society registers a stronger development. Society's capacity to learn, innovate and act differently is a process with a long evolution over time and depends on the system of shared values, consecrated practices (traditions, customs), and the institutional influences for the adoption of new practices.

Some authors have not managed to find a statistic correlation between the level of schooling and economic growth (Easterly, 2001, pp73-84; Bosworth and Collins, 2003). Others followed a different path by taking into account the level of qualification appreciated by a series of variables that approximate the quality of training as scores obtained by test (Barro and Sala-i-Martin, 2004, p.537; Mankiw 1995). Statistic studies attempting to show the connection between training and growth registered quite heterogeneous results (Baumol, 2007, p 163).

The absence of traditions, trust (in one's own forces and in community's members), entrepreneurial initiative and the propensity to learning may represent obstacles in the way of stimulation of endogenous development and may be regarded as attributes of some communities dominated by foreign corporations (Sweeney, 1990).



A component of the cultural context lying at the bottom of economic growth, especially in the advanced countries, is “*Entrepreneurial cultural*” whose main characteristic is the taking of risks (Phelps, 2006). One of the explanations for the poor economic performances identified by the author mentioned above is population’s insufficient propensity to taking risks.

A study carried out in the interval 2003-2004 on a sample of Russian entrepreneurs showed that the entrepreneurial spirit propagated in the Russian economy via the family context as it happens in the societies having a strong entrepreneurial character (the USA). Thus, it has been noticed that the probability to become entrepreneurs is two times bigger for the people coming from families with previous experiences in enterprise management (they show the importance of education for entrepreneurial virtues ever since the family environment and hence the importance of some aspects of the cultural context, namely the capital and social capacity).

2. Data and methodology

The study of effects of the national or regional cultural context on economic development supposes first of all the verification of the extent to which culture presents important aspects varying from one country to another, or from region to another, that may influence in a significant manner the economic results obtained, and second the identification of those cultural variables having a more important impact on development. In some situations, it is possible to highlight in a direct way the economic effects of culture whereas in other cases it is possible to highlight the influence in an indirect manner. Moreover, information and data available for the cultural variables are so subjective so that the researcher may be influenced in the process of analysis by what they know about the economic results of such country or region.

The influence exerted by a series of variables having a strict economic character (physical and human capital, technical and technological progress) is easier to demonstrate due to the existence of statistic data supplied by the national accountancy, whereas for the cultural aspects there is no unique data source that may synthesize the cultural differences existing between countries. Moreover, formal data are completely lacking for some cultural aspects. Taking into account culture as a determining factor for economic development implies the resort to value judgments regarding the reliability of cultural systems.

Analysis must start from the study of economic implications of different national and/or regional cultural aspects forming the cultural context by finally evaluating the impact of non-economic factors on the economic growth on one hand, and on the other hand the way in which they are influenced by development. The problem must be approached in the light of mutual interrelation so as to establish the extent to which certain cultural characteristics may favor economic growth in certain circumstances by preventing it, in exchange, in others.

To analyze the link between economic growth of some countries included in the survey and the different variables of the cultural context we used the data of World Values Survey databank based on which we calculated the national scores in



terms of the following variables: social capital (score calculated based on the population's allegiance to different organizations with social character); trust – analyzed from the perspective of several dimensions thereof (trust in public and political institutions, great companies, mass media, organizations and movements and the trust manifested between the community members), the attitude towards work, aspects of entrepreneurial culture (creativity, innovation, risk taking). National scores for each variable were calculated as weighted arithmetic averages depending on the type of scales used and the number of their steps.

3. Relationship between cultural variables and development in the European countries

The study of implications of variables of the cultural context on development remains a domain difficult to approach in quantitative terms. the issue must be approached in the light of mutual interrelation between the different aspects of the national and/or regional cultural context and the development process by evaluating on one hand the implications of some non-economic factors on development and, on the other hand, the way in which the latter exerts influence upon the cultural factors.

Table 1. Development indices for several European countries

	Country/ development indice	LPI	Rank	HDI	Rank	GNI /per capita	Rank	GCI	Rank
1	Norway	3,52	1	0,94	1	63909,45	1	5,35	7
2	Switzerland	3,32	2	0,92	2	53761,92	2	5,70	1
3	Sweden	3,19	3	0,90	5	43201,35	3	5,41	5
4	Finland	3,02	4	0,88	8	37366,07	6	5,50	2
5	Netherlands	2,99	5	0,92	3	42397,20	5	5,45	4
6	Great Britain	2,69	6	0,89	6	35001,63	8	5,41	6
7	Germany	2,66	7	0,91	4	43048,68	4	5,49	3
8	France	2,07	8	0,88	7	36628,78	7	5,08	8
9	Slovenia	1,72	9	0,87	9	26808,60	11	4,22	18
10	Spain	1,67	10	0,87	11	30561,47	10	4,55	9
11	Poland	1,17	11	0,83	13	21487,18	14	4,48	10
12	Italy	1,07	12	0,87	10	32668,99	9	4,42	12
13	Hungary	0,92	13	0,82	14	21239,13	15	4,28	17
14	Cyprus	0,86	14	0,85	12	26770,73	12	4,31	15
15	Bulgaria	0,37	15	0,78	17	15401,58	18	4,37	13
16	Romania	0,07	16	0,79	15	17432,66	17	4,30	16
17	Ukraine	0,01	17	0,73	20	8214,53	20	4,14	19
18	Russia	-0,13	18	0,78	16	22616,58	13	4,37	14
19	Serbia and Montenegro	-0,39	19	0,75	19	11300,90	19	3,90	21
20	Turkey	-0,60	20	0,76	18	18391,40	16	4,46	11
21	Moldova	-0,68	21	0,66	21	5041,20	21	4,03	20

Source: Own processing by: Legatum Prosperity Report 2014, Human Development Report 2014, Global Competitiveness Report 2014/2015



As one may see from the data in table 1, the hierarchy in terms of the first ranked 10 countries and the last 10 is maintained, regardless of the way in which the development level of the countries under study is expressed. Thus, we may notice that the countries from Western Europe are among the most developed ones, the central European countries occupy the middle of the classification and the countries from eastern Europe and south east Europe are among the most poorly developed one, many of them belonging to the former communist bloc.

The data regarding the values of cultural variables included in the analysis highlight a series of similarities between some states, allowing the identification of the following groups: more developed western European countries (Great Britain, France, Norway, Finland, the Netherlands, Germany, Italy, Switzerland, Spain, Sweden), central European countries (Slovenia, Poland, Hungary) characterized by an intermediate development level and the eastern countries, more poorly developed, most of them belonging to the former communist bloc (Bulgaria, Cyprus, Romania, Russia, Serbia, Turkey, Moldova, Ukraine). There are several dissimilarities in terms of cultural values between these groups of states that might exert an influence on human capital and implicitly on the development process (table 2):

Table 2. Dissimilarities of cultural values between eastern and western European countries

	Eastern European countries / less developed	Western European countries / developed
Religion	<ul style="list-style-type: none"> - High levels of importance of religion index; - High concentration of people who indicated the religion among the most important values in educating children; - Predominantly Orthodox population and reduced weights of people who declared themselves as not belonging to any religion (except Russia) 	<ul style="list-style-type: none"> - lower values of importance of religion Index; - Low percentage of people who indicated the religion among the most important values in educating children; - Religion consists of a mix of religions: large shares (over 20%) of: protestant, evangelical religions, and of people declared themselves as not belonging to any religion
Traditions	<ul style="list-style-type: none"> - High levels of the importance of traditions index, which may reflect a reluctance to adopt the valuable ideas from other cultures / countries. 	<ul style="list-style-type: none"> - Low levels the importance of traditions index reflecting the opening of new ideas, the methods, techniques, modern management practices.
Hard work and innovation	<ul style="list-style-type: none"> - more than 50% indicated hard work between values to be cultivated among children - lower weights indicated imagination, creativity and 	<ul style="list-style-type: none"> - below 50% indicated hard work between values to be cultivated among children (except France and Spain) - higher rates indicated imagination, creativity and innovation between

	innovation between values that should be cultivated among children (under 25%)	values that should be cultivated among children (25%)
Independence / entrepreneurship	<ul style="list-style-type: none"> - below 50% indicated independence among the values to be cultivated in children (except Cyprus) - pronounced tendency towards obedience (except Russia and Bulgaria) - reduced tendency towards asserting ego (except Cyprus) 	<ul style="list-style-type: none"> - more than 50% indicated independence among the values to be cultivated in children - pronounced tendency towards independence (except Spain) - stronger tendency towards asserting ego (except England)
Be rich/ materialism	<ul style="list-style-type: none"> - high levels of the indices that reflects the desire to be rich and to accumulate richness - predominant inclination towards materialism 	<ul style="list-style-type: none"> - power values of the indices that reflects the desire to be rich and to accumulate richness - predominant inclination towards postmaterialism
Trust	<ul style="list-style-type: none"> - Very low values of confidence indices 	<ul style="list-style-type: none"> - Higher values of confidence indices - the highest level of confidence is manifested in northern Europe countries (developed)
Social Capital	<ul style="list-style-type: none"> - low level reflected by the very low weights of persons who are members of humanitarian and sports organizations - lower weights indicated tolerance, respect and responsibility as values to be cultivated among children 	<ul style="list-style-type: none"> - high level reflected by higher weights of people who are members of humanitarian and sports organizations - Weights over 80% indicated tolerance, respect and responsibility as values to be cultivated among children

To identify the existence of some links between the values of cultural variables characteristic to the European countries under study and the indicators for development and economic growth, the intensity of these links and direction, we used Pearson's correlation coefficient. Thus, we may come to the following conclusions from table 3 which presents the matrix of correlation coefficients between the variables under study:

- direct connections of high intensity may be noticed between the indicators for development and cultural variables such as imagination and creativity, materialist/post-materialist index, trust and a series of variables that may be assimilated to social capital such as tolerance and respect and the allegiance to humanitarian and sports organizations;
- direct connections of medium intensity may be noticed in terms of the allegiance to protestant religion and the non-allegiance to a religion, the generation of new ideas, variables reflecting independence (affirmation of one's personality, obedience and independence), and responsibility from the variables associated to social capital);



Table 3. Pearson correlation coefficients between values of development indices and cultural variable for several European countries

	Development indices				
	Cultural variable	LPI	HDI	GCI	GNI*
Religion	Importance/ religion	-0,68	-0,57	-0,57	0,39
	Religion/none	0,60	0,60	0,59	0,56
	Religion/orthodox	-0,70	-0,76	-0,63	-0,66
	Religion/protestant	0,63	0,48	0,66	0,61
	Religion/catholic.	0,11	0,27	-0,13	0,04
Tradition	Child values/Religion faith	-0,61	-0,51	-0,16	-0,54
	Importance tradition	-0,68	-0,63	-0,69	-0,62
Hard work/	Child values/Hard work	-0,85	-0,80	-0,76	-0,69
Creativity	Importance/New ideas	0,44	0,46	0,48	0,42
	Child values/Imagination	0,76	0,76	0,80	0,74
Independence	Child values/Independence	0,64	0,64	0,49	0,63
Entrepreneurship	I seek to be myself	0,55	0,55	0,59	0,73
	Obedience/independence	0,65	0,55	0,56	0,62
Wealth	Importance/be rich.	-0,80	-0,74	-0,70	-0,74
	Wealth accumulation	0,38	0,27	-0,12	0,41
Materialist	Taking risks	0,11	0,18	-0,03	0,14
	Materialist/postmat Index	0,83	0,79	0,80	0,84
Trust	Trust	0,81	0,66	0,77	0,81
	Membership humanitarian organizations	0,84	0,84	0,76	0,80
Social	Membership sport organizations	0,89	0,81	0,85	0,85
Capital	Help people	0,26	0,30	0,20	0,33
	Child values/Tolerance/respect	0,84	0,78	0,81	0,79
	Child values/Responsibility	0,61	0,61	0,59	0,69
	Child values/Perseverance	0,38	0,36	0,37	0,36

Source: Own calculations based on values of development indices and cultural variables for the European countries included in the study, *GNI/per capita

- direct connections of low intensity may be noticed for the importance of risk taking, the propensity to helping people, perseverance and allegiance to the Catholic religion;
- reverse connections of high intensity may be noticed in case of the following variables: hard/back-breaking work, the desire to be rich, the allegiance to the Orthodox religion and the anchoring into traditionalism;
- as for the importance of religion, we may notice a reverse connection of medium intensity.

The data presented highlight notable interstate differences in terms of some variables of the cultural matrix between the developed western European countries and the eastern European countries lagging behind. Thus, we may affirm that the countries from Western and Eastern Europe have attributes of cultural matrix more favorable to the development processes. In these regions different social (ethnic, religious) groups had to learn to collaborate, respect each other and to manifest a

higher level of trust to obtain mutual welfare. Thus, cultural values indispensable to development sustainability, such as trust and social capital, have built up over time.

Conclusions

Economic development is an evolutionary process that involves quantitative and qualitative changes in the economy, people / society is the purpose and means, the cause and effect of this process. The human factor becomes the cause of the development process, through the ability to identify sources and opportunities for economic progress, to combine and use the resources at its disposal. At the same time, economic development increase the quality of human capital through acquisition of new competences, skills and abilities as result of raising the level of education of the population.

The analysis of economic development process and inter-state or interregional inequalities should be an anthropocentric one, because the human factor it has a decisive role in ensuring the success of economic growth, not resource abundance. In these circumstances, the importance of the cultural components for the development process is amplified. Some economists have argued that the economic development can't be explained without paying tribute to cultural factors. However, there are opinions that the effect of "invisible hand" of culture on development was only revealed, but not economically validated.

In the present economic international conjecture, the economic progress of lagging countries or regions depends radically on their ability to harness the potential of creativity, skills and abilities of the human factor, to promote those cultural values that can contribute to the higher growth. Thus, the human being/society is the central and stimulating element of the development process, the "black box" able to identify and capitalize the distinctive aspects and advantages of the national/regional economic environment. In those circumstances, the attitudes, skills, abilities and moral precepts of the people are particularly important. The development process can be boosted when the population is driven by a strong work ethic, fierce desire to learn from the experiences of other economies, the attachment to the principles of quality and professional excellence, etc., all of which are closely related issues of the cultural matrix of a country.

From the study may be highlighted significant differences between prevailing cultural values in the two categories of European states: the more advanced Western European countries and lagging Eastern European countries. Also, can be observed direct connections of high and medium intensity between the development indices for the 21 European countries included in the study and those of some cultural variables: trust, social capital, materialist/post-materialist index and some values that can be related to entrepreneurial culture (importance of new ideas, imagination and creativity, the independence). Reverse connections of high intensity may be noticed in case of the following variables: hard/back-breaking work, the desire to be rich, the importance of religion and the anchoring into traditionalism.



Although the research has shown a direct of medium intensity link between development indicators and the share of the population affiliated to a religion (Protestant, neo-Protestant) or without religious affiliation, and a reverse connection of high intensity with the share of Orthodox religion, the data should be interpreted with caution. This could be subject to a more in-depth research to examine the extent to which religion or religious context (dominant religion with share of over 85-90%, or a mix of religions with lower percentages) could explain, at least partially, the development disparities between countries and regions. One of the limitations of the research was the unavailability of data on cultural values for all European countries on World Values Survey website.

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LOCAL LEVEL IMPLEMENTATION OF THE EU AIR QUALITY POLICY

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Abstract: *Air pollution is one of the domains in which the European Union has been most active by controlling the emissions of harmful substances into the atmosphere. Although it has one of the world's highest environmental standards, European Union is still far from achieving levels of air quality that is acceptable to humans and the environment. The effect of air pollution on health has considerable economic impacts, cutting lives short, increasing medical costs and reducing productivity through working days. This study analyzes the air quality legislation that Member States have to implement in order to maintain the best environmental conditions and presents Iasi County's air quality monitoring system as a part of the national and European monitoring network.*

Keywords: Air quality; European Union; air pollutants; monitoring network; Iasi County

Introduction

Europe's environmental policy is based on the European Union's general objective of achieving a "high level of protection and improvement of the quality of the environment" and on applying the general principles of integrating environmental protection into all policies, precaution, prevention, damage control at source and the polluter pays principle (Scheuer, 2005).

According to EEA's Air Quality Report 2014 (EEA, 2014), despite considerable improvements in the past decades, air pollution is the one of the top environmental risk factor of premature death in EU, it increases the incidence of a wide range of diseases and has several environmental impacts, damaging vegetation and ecosystems. This constitutes a substantial loss for European Union's natural systems, its agriculture, its economy and the health of inhabitants. The effects of poor air quality have been felt most strongly in two main areas: health problems and impaired vegetation growth in ecosystems.

Because of the economic growth and changed standards of living that Europeans had experienced it in the last decades, environmental changes can be

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seen today in the form of water pollution, acid rains, photochemical smog or intense soil erosion as a result of intense deforestation (McMichael *et al.*, 2003).

Emissions of air pollutants are still increasing and EU will find it difficult to meet its commitments under the Kyoto Protocol (2005)¹. Clean air policy-making in the EU has been influenced by international negotiations on air pollution under the 1979 Convention of Long-range Transboundary Air Pollution (UNCE 2015a), and its various protocols, in particular the Gothenburg Protocol (UNCE 2015b). Important EU policy goals relating to air pollution were laid down in the 5th Action Programme (1992), 6th Action Programme (2002) and in the 7th Action Programme (EAP) that is guiding European environment policy until 2020 (EC, 2013).

The European Environment Agency (EEA) regularly publishes environmental indicators, which offers an overview of the state of Europe's environment. EEA indicators are dependent on data availability, which is strongly linked to monitoring and reporting requirements set out in EU environmental legislation (EEA, 2010a).

1. The air quality issue in European Union

Following emission from a particular source, air pollutants are subject to a range of processes including atmospheric transport, mixing and chemical transformation, before exposure to humans or ecosystems may occur (EEA, 2010b). Air pollution's principal effects on European ecosystems are eutrophication, acidification and damage to vegetation resulting from exposure to ozone and ammonia. As sulphur dioxide emissions have fallen, ammonia emitted from agricultural activities, and nitrogen oxides emitted from combustion processes have become the predominant acidifying and eutrophying air pollutants (EEA, 2014).

Heart diseases and strokes are the most common reasons of premature death due to air pollution, followed by lung diseases and lung cancer (WHO, 2014). European Commission estimated for 2010 a direct economic damage of EUR 15 billion from workdays lost and EUR 4 billion in healthcare costs. Besides affecting human health, water and soil quality and agricultural crops, air pollution also damages materials and buildings, including Europe's most culturally significant buildings. At present, particulate matter (PM) and ground level ozone are Europe's most problematic pollutants in terms of harm to human health, followed by benzo(a)pyrene and nitrogen dioxide. Concentration of arsenic, cadmium, lead and nickel in air are generally low in Europe, with few exceedences of limit or target values. These pollutants contribute to the deposition and build-up of toxic metal levels in soils, sediments and organisms (EEA, 2012).

The emissions of acidifying gases – sulphur dioxide, nitrogen oxides and ammonia decreased by 32% between 2000 and 2011. Agriculture, forestry and fishing account for the largest share of all industries, in 2011 they emitted 36% of the total acidifying potential. The second largest contributor to acidifying

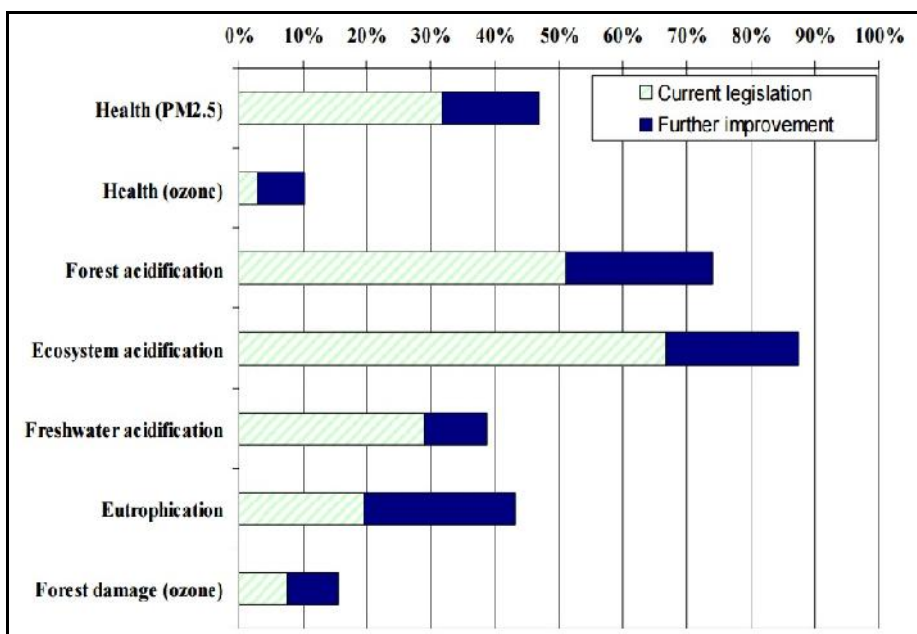
¹ For further details see <http://www.kyotoprotocol.com>



emissions in 2011 was the transport industry with a share of 18% or 3.5 million tons of sulfur dioxide equivalents. The most significant decrease was observed for the electricity, gas, steam and air conditioning supply industries. The more systematic use of end-of-pipe pollution filters and the use of more efficient combustion technologies in the electricity and heat production are the main contributors to this development. EU chemicals production increased continuously during 2002-2007, rising overall by 9.7% to reach a peak of 362 million tons in 2007. During the financial and economic crisis, production fell by 6.6% in 2008 and by further 13.6% in 2009 (Eurostat, 2014).

Within the European Union, the Sixth Environment Action Programme set the long-term objective of achieving levels of air quality that do not give rise to significant negative impacts to human health and the environment. The Thematic Strategy on Air Pollution from the European Commission subsequently set interim objectives for air quality improvement to the year 2020 (EC, 2005).

Figure 1. Improvement of health and environment indicators for 2020, following the Strategy on Air Pollution



Source: Thematic Strategy on Air Pollution, 2005

2. Air quality legislation in European Union

European Union has developed an extensive body of legislation which establishes health based standards and objectives for a number of pollutants in air. These standards apply over differing periods of time because the observed health impacts associated with pollutants occurs over various exposure times (EEA, 2014).

Europe's environmental legislation has grown piece by piece and resulted in a complex body of legislation. It can be observed a trend of delegating further environmental policy decision to lower levels – European Agencies, expert committees, regional expert networks, technical standardization and voluntary agreements. Directives are addressed to Member States and impose upon an obligation to achieve a specific result within a certain period of time. Member States must transpose the Directives into domestic legal orders, but it is up to them to achieve the imposed result as long as the transposition is complete and correct. The European Commission has a special obligation to enforce EU laws and thus must control the quality of transposition and application of provisions (Scheuer, 2005).

The European Union air quality legislation is built on the principle that EU Member States divide their territory into a number of air quality management zones and agglomerations where are undertaken the assessments of air pollution levels using measurements and modelling. In case that air pollutant levels are elevated, each Member State should prepare an air quality plan or program to ensure compliance with the limit value before the date when the limit value formally enters into force. In addition, information on air quality should be disseminated to the public (EEA, 2011).

The European directives currently regulating ambient air concentrations of the main pollutants are design to avoid, prevent or reduce the harmful effects of air pollutants on human health and the environment by implementing limits or target values for ambient concentrations of air pollutants. They comprise:

- Directive 2008/50/EC on ambient air quality and cleaner air for Europe, which regulates ambient air concentrations of sulfur dioxide, nitric dioxide and other nitrogen oxides, PM₁₀ and PM_{2.5}, lead, benzene (C₆H₆), carbon monoxide and ozone (EU, 2008);
- Directive 2004/107/EC of the European Parliament and of the Council relating to arsenic, cadmium, mercury, nickel and polycyclic aromatic hydrocarbons in ambient air (*Fourth Daughter Directive*) (EU, 2004).

Other directives regulate emissions of the main air pollutants from specific sources and sectors by setting emissions standards, requiring the use of best available technology or setting requirements on fuel composition.

Table 1. EU targeted levels of different air pollutant's value

Pollutant	Concentration	Averaging period	Equal nature	Permitted exceedences each year
Fine particles (PM _{2.5})	25 µg/m ³	1 year	Target value entered into force 1.1.2010 Limit value entered into force 1.1.2015	n/a
Sulphur dioxide (SO ₂)	350 µg/m ³	1 hour	Limit value entered into force 1.1.2005	24
	125 µg/m ³	24 hours	Limit value entered into force 1.1.2005	3



Nitrogen dioxide (NO ₂)	200 µg/m ³	1 hour	Limit value entered into force 1.1.2010	18
	40 µg/m ³	24 hours	Limit value entered into force 1.1.2010	n/a
PM10	50 µg/m ³	24 hours	Limit value entered into force 1.1.2005	35
	40 µg/m ³	1 year	Limit value entered into force 1.1.2005	n/a
Lead (Pb)	0.5 µg/m ³	1 year	Limit value entered into force 1.1.2005 (or 1.1.2010 in the immediate vicinity of specific, notified industrial sources; and a 1.0 µg/m ³ applied from 1.1.2005 to 31.12.2009)	n/a
Carbon monoxide	10 mg/m ³	Maximum daily 8 hour mean	Limit value entered into force 1.1.2005	n/a
Benzene	5 µg/m ³	1 year	Limit value entered into force 1.1.2010	n/a
Ozone	120 µg/m ³	Maximum daily 8 hour mean	Target value entered into force 1.1.2010	25 days averaged over 3 years
Arsenic (As)	6 ng/ m ³	1 year	Target value entered into force 31.12.2012	n/a
Cadmium (Cd)	5 ng/ m ³	1 year	Target value entered into force 31.12.2012	n/a
Nickel (Ni)	1 ng/ m ³	1 year	Target value entered into force 31.12.2012	n/a
Polycyclic Aromatic Hydrocarbons	1 ng/ m ³ (expressed as concentration of Benzo(a)pyrene	1 year	Target value entered into force 31.12.2012	n/a

Source: Air Quality Standards, available at ec.europa.eu/environment/air/quality/standards.htm

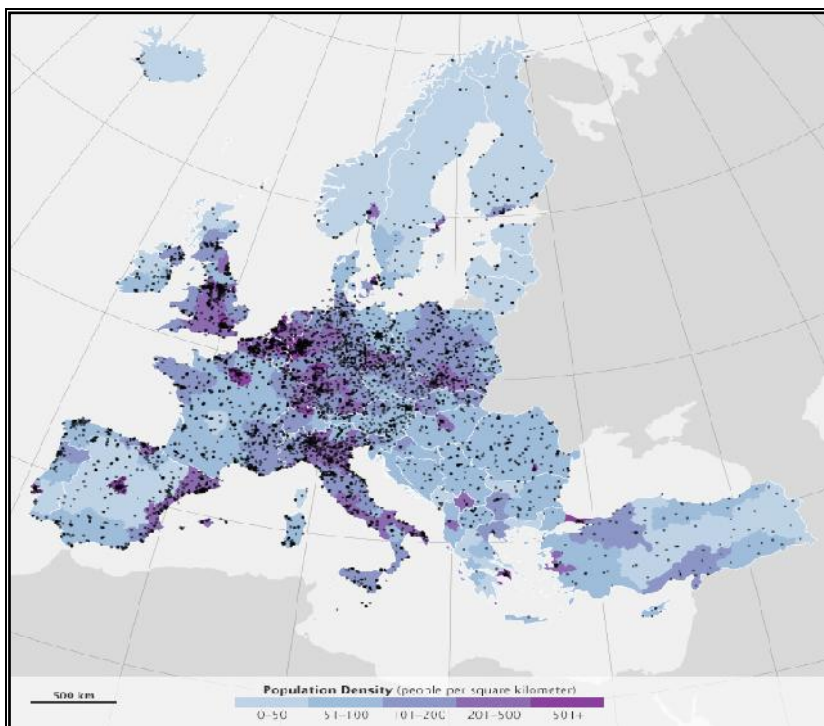
Air quality Directives focus primarily on local pollution hotspots, although the substances addressed are not only those emitted from a local source, but also those that are transported over long distances. Local authorities charged with implementing the Directives often claim that local policies and measures are not sufficient to bring down pollutant concentrations to the required levels. Often, additional measures at national or EU-level are needed to achieve air quality standards. Citizens have the right to go to court if their authorities have not achieved the standards or not implemented appropriate measures to achieve them. This is a strong tool for environmental organizations, which can enforce the air

quality limit values, as it has already been done in the UK and Netherlands (Scheuer, 2005).

The EU Member States have to submit annually their air quality data to Airbase, the European Air Quality Information System. European Environmental Agency (EEA) on behalf of the EU Commission and supported by EEA's European Topic Centre on Air and Climate Change maintains AirBase and produces technical papers for each reporting year with overviews and analyses of the submitted information concerning data quality and zone exceedances in the EU Member States. Data on air pollutants are officially reported under the convention on Long-Range Transboundary Air Pollution (CLRTAP) to the EMEP Program (Cooperative Program for Monitoring and Evaluation of the Long-Range Transmission of Air Pollutants in Europe). Main elements of EMEP are: collection of emission data (Figure 2), measurements of air and precipitation quality, modelling of atmospheric transport and deposition of air pollutants (Moldanova, 2013, p. 405)

Transport modes are essential tools that address different spatial and temporal scales, linking emissions to calculated air pollutant concentrations or deposition fluxes. In an integrated assessment, air pollutant transport models are used to connect emissions with geographically-specific estimates of health and ecosystem impacts (EEA, 2010b).

Figure 2. The distribution of air quality monitoring stations in Europe



Source: NASA Earth Observatory, available at: <http://earthobservatory.nasa.gov>



3. Air quality legislation implementation at national and local level

In Romania, the Directive 2008/50/EC on ambient air quality and cleaner air for Europe and the Directive 2004/107/EC of the European Parliament and of the Council relating to arsenic, cadmium, mercury, nickel and polycyclic aromatic hydrocarbons in ambient air are transposed into the national legislation by the Law no. 104/15.06.2011 regarding air quality. Some of the measures stipulated by the law involves defining and establishing air quality objectives in order to prevent and reduce the possible harmful effects on human health and environment. It also refers to air quality evaluation at national level using common methods and criteria in order to make it accessible for the public (Law 104/15.06.2011).

Air quality law implementation is made by the National System of Evaluation and Integrated Management of Air Quality which includes the National System of Air Quality Monitoring and National System of Atmospheric Pollutants Inventory Emissions. The National System of Evaluation and Integrated Management of Air Quality provides the organizational, institutional and legal framework of cooperation of the public authorities and institutions with competence in the field of air quality. It also provides evaluation and management, unitarily, on the entire Romanian territory and it is in charge with the information dissemination regarding air quality to the population and international organisms (www.calitateaer.ro).

National and sub-national authorities are very important actors regarding EU legislation implementation, especially because they can adopt additional measures depending the sources of pollution existing at national level. Usually, in the European cities, most of the targeted measures involve traffic emissions: improvement of public transport, the creation of low-emission zones, and promotion of cycling or changes in speed limits for cars (EEA, 2014).

For air quality assessment on the Romanian territory, 13 agglomerations were established (Bacau, Baia Mare, Brasov, Braila, Bucuresti, Cluj Napoca, Constanta, Craiova, Galati, Iasi, Pitesti, Ploiesti and Timisoara) and 41 zones identified at a county level.² At a national level, air quality data can be accessed on the webpage www.calitateaer.ro. The website is dedicated to real time public information in air quality parameters, updated hourly, monitored at more than 100 stations all over the country.

The National System of Air Quality Monitoring comprise 142 automatic air quality monitoring stations and 17 mobile stations as it follows: 24 traffic stations, 57 industrial stations, 37 urban background stations, 15 suburban background stations, 6 regional background stations and 3 EMEP (EMEP, 2015) stations.

Air quality information data from the 142 monitoring stations and meteorological data obtained from 119 stations are transmitted to the local centers from the Environment Protection Agency of each county. Data regarding air

² For further details check on Romanian Ministry of the Environment, Waters and Forestry website at www.mmediu.ro.

quality are presented to public interest by outer panels, conventionally located in densely populated cities and also in city halls interior panels (APM, 2013).

4. Iasi air quality monitoring system

Iasi County covers an area of 5476 square kilometers and has a population of 849.670 inhabitants. Iasi Municipality is the residence of Iasi County, ranking as first urban settlement of national importance and with potential influence at European level (INSSE, 2013).

The local network of Air Quality Monitoring in Iasi agglomeration was created in 2005, within the PHARE Project RO 2002 “Improving the national network of air quality monitoring” and consists in 6 automatic monitoring stations that are equipped with efficient analyzers that are applying the reference methods mentioned by the Law no. 104/15.06.2011 regarding air quality in Romania (APM, 2013).

The local environmental authority for Iasi County is the Environmental Protection Agency and is subordinated to the National Agency for Environmental Protection, a specialized institution of the central administration, part of the Ministry of Environment, Waters and Forests competent to implement policies and legislation in the field of environmental protection.

The Agency has the following attributions: strategic environmental planning, environmental activities monitoring, authorizes the activities with environmental impact, implements the environmental legislation and policies at national and local level and reports information to the European Environmental Agency for the following domains: air quality, climate change, protected areas, soil contamination and water pollution (ANPM, 2015).

Figure 3. Air quality monitoring points in Iasi agglomeration



Source: own representation

The local network of Air Quality Monitoring comprises the following six locations (APM, 2013):



- IS-1 Station Podu de Piatra – traffic station located in an area with intense traffic. The monitorized pollutants are specific for the transport activity;
- IS-2 Station Decebal-Cantemir – urban background station located in a residential area, at an appreciable distance from the local sources of pollutants emissions in order to evidetiate the exposure risk of the population;
- IS-3 Station Oancea-Tatarasi – industrial station that highlights the pollutants emissions from the industrial area on Tatarasi district;
- IS-4 Copou-Sadoveanu – rural background station, located in an area sparsely populated, away from the city center and sources of pollutants;
- IS-5 Tomesti – suburban background station that evaluates the exposure of population and vegetation from the periphery to ozone pollution;
- IS-6 Bosia-Ungheni – urban background and traffic station.

Figure 4. Air quality indicators selection

De la data: 06/03/2015 la data: 07/03/2015

Stati: IS-6

<input type="checkbox"/> Benzen [$\mu\text{g}/\text{m}^3$]	<input type="checkbox"/> Cd [$\mu\text{g}/\text{m}^3$]	<input type="checkbox"/> Dioxid de azot [$\mu\text{g}/\text{m}^3$]
<input checked="" type="checkbox"/> Dioxid de sulf [$\mu\text{g}/\text{m}^3$]	<input type="checkbox"/> Cu, Vant [m/s]	<input type="checkbox"/> Etilbenzen [$\mu\text{g}/\text{m}^3$]
<input type="checkbox"/> Monoxid de azot [$\mu\text{g}/\text{m}^3$]	<input type="checkbox"/> Monoxid de carbon [mg/m^3]	<input type="checkbox"/> m-Xilen [$\mu\text{g}/\text{m}^3$]
<input type="checkbox"/> Na [$\mu\text{g}/\text{m}^3$]	<input type="checkbox"/> o-Xilen [$\mu\text{g}/\text{m}^3$]	<input type="checkbox"/> Ozon de azot [$\mu\text{g}/\text{m}^3$]
<input type="checkbox"/> Pb 10 - grv. [$\mu\text{g}/\text{m}^3$]	<input type="checkbox"/> PM10 - aut [$\mu\text{g}/\text{m}^3$]	<input type="checkbox"/> PM10 - grv. [$\mu\text{g}/\text{m}^3$]
<input type="checkbox"/> Precipitatie [mm]	<input type="checkbox"/> Presiune [mbar]	<input type="checkbox"/> p-Xilen [$\mu\text{g}/\text{m}^3$]
<input type="checkbox"/> Radiatie solara [W/m^2]	<input type="checkbox"/> Temp. 2 m [$^{\circ}\text{C}$]	<input type="checkbox"/> Toluen [$\mu\text{g}/\text{m}^3$]
<input type="checkbox"/> Umiditate relativa [%]	<input type="checkbox"/> Viteza vant [m/s]	

Source: own representation available at www.calitateair.ro

Local Environment Protection Agency emits each year a complex report regarding the state of the environment in the county that tackles the following subjects: local economy, air quality (types and concentrations of pollutants), water quality, land use, biodiversity, waste management, climate changes and life quality. In this manner, available data is made public and represents an important source of information for the inhabitants regarding the quality of the environmental factors.

Conclusions

Air pollution issue requires international cooperation in order to improve the situation. Poor air quality remains an important public issue in European Union, although there has been clear progress in reducing anthropogenic emissions in past decades. Member States are making efforts to transpose the Directives into the national law and to find specific action plans. The local network of Air Quality Monitoring in Iasi agglomeration is an example of the EU air quality legislation applied at local level. The network is a specific tool of information regarding the pollutants from different points situated inside and outside Iasi. Usually, the most effective measures are taken at a local level where the members of the community

can be informed. Nowadays, the access to environmental information is facilitated by transparent actions of the actors involved in the industrial activities and a better collaboration between institutions at local, national and European level.

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NEW MEDIA AS A CATALYST OF EUROPEAN IDENTITY

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Abstract: *The European Union continuously endeavors to submit to an integrative framework which support the formation of a European spirit and identity. Among the accelerating factors, new media stands for a catalyst of European integration, online networks supporting the users to share opinions, experiences, information, etc. The interactivity provided by new media allow Europeans to learn more about each other and to discover similar or subsidiary objectives. Here, the paper aims to investigate the role of new media in the reconfiguration of social relationships which encompass a shared identity. To this end, several in-depth interviews were conducted with active users who are anchored in online European debates. As the findings showed, new media facilitate people's engagement in virtual relations and supports the creation of social groups with similar values and standpoints on the European constructs.*

Keywords: new media; European identity; citizenship; public sphere

Introduction

The development of new media is more influenced by economic factors than the old media. Technologically advanced economies are in the action of moving towards information-based economies, leaving behind industrial capitalism (Freeman and Soete, 1997; Piketty, 2014). New media expands national boundaries, the traditional barriers being crossed towards intercultural communication - the Internet fosters concessions, permission and freedom, English being the *lingua franca* of the Internet just as it is now for many individuals the international language for business (Morley and Robins, 1995; Kramarae, 1999).

The emergence of online innovations has become the subject of several debates, highlighting the role of technology in reinforcing the quality of the public sphere and thus democracy (Coleman, 1999; De Vreese, 2003; Jakubowicz, 2012).

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The growth of the platforms of new media such as blogs or social networks is undeniable. The occurrence of new media driven by interconnectivity has brought the expectation of the revival of public sphere, linked to democracy (Poster, 1999). There is an authentic connection between public interest and media since new media include both information and interactivity; more precisely they set down the feedback of virtual visitors and they cover future issues considering the public's grievance (Stroecker *et al.*, 2014). A majority of scientists interested in the European Union assert that there is a need for further democratization to prevent legitimacy future problems of the European governance (Zürn, 2000; von Bogdandy, 2007). Greater support for active citizenship would certainly diminish the deficits of legitimacy (Walkenhorst, 2008). Nevertheless, Kaina and Karolewski (2013, p.9) assume in the European case, a "dilemma of simultaneity" as a consequence of the interdependence that exists in improving democratic quality and defining conditions for the cultivation of the European identity. More precisely, the authors describe that the European governance needs the support of its peoples, and their attachment to EU policies is determined by a more democratic system; a higher degree of democracy comes with the risk of legitimacy difficulties, caused by the lack of a vital common identity.

In this vein, focusing on the usage of new media within the boundaries of the European Union, it should be stressed that the EU communication policy is not established by specific rules from treaties; it stems directly from the obligation of explaining the functioning, the politics of the European Union and even the understanding of European integration to the public. The need for an operative communication has the Charter of Fundamental Rights of the European Union as legal basis, which guarantees the right of being informed for all the European citizens. The primary objective of the European communication policy is promoting trust in the European project and the gradual configuration of a European identity (Pagden, 2002; Delanty, 2005; Cataldo, 2014). Still, additional new media support the overall communication, ranging from online institutional channels to online social networks which are merely informal.

Against this backdrop, the present study aims at investigating the role of new media in the formation and consolidation of a European spirit which encompasses a shared identity and the openness to becoming part of a whole at the same time. To this end, the paper is structured as follows: firstly, the theoretical section approaches two main research directions, namely the European identity as an ongoing process and new media and the EU public sphere; secondly, the methodological section describes the research design (participants, procedure, measures); thirdly, the empirical section brings to the fore the results derived from twenty in-depth interviews which were conducted with active users in online European debates.

The underlying assumption is that an active online presence within the framework of European debates catalyzes the European identity and identification to a great extent.

1. Literature review

1.1. The European identity as an ongoing process

Public opinion and public political communication can be viewed as public participation and as ways of determining political decision-making and action. According to Peters (2005), a political community has to detain as precondition a common, legitimate and democratic political order. European citizens need to trust European institutions and those who create legislative order inasmuch as the sense of justice includes commitment to equal positioning of persons within the European political order, and solidarity (Condor, 2012; Føllesdal, 2014). The skeptical objections of the European Union insist on the feeble collective identity and a truly missing European public sphere. The basis of the political community must be discussed freely at national channels and in pan-European forums as long as European identity should not be defined through the exclusion of national identity, but rather as an extension of the prime identity assumed (Stiftung, 2013). Collective identity involves coherence and cohesion; which have to be accomplished by individuals, and it is sustained through time – by shared traditions- and across space –by defining the concept of inclusion and exclusion- (Morley and Robins, 1995, p.72). Public discourse is considered part of the public sphere, which has the connotation of a delimited social space of communication, where the public transmutes into a community (Peters, 2005). The European public sphere is consolidating around particular problems which are supported by all its citizens, such as anti-war pleadings or environmental catastrophes. Eliminating social, political, and economical differences is the precondition of collective identity that should have as foundation freedom and human rights; assurances of attachment and reciprocity (Kaina and Karolewski, 2013). The process of homogenization of regional groupings can be assumed through the reduction of the discrepancy between members of the same community, inasmuch as the interest is to avoid the creation of an artificial collective identity (Anderson, 1991; Wendt, 1994; Walkenhorst, 2008).

As far as the identity construction is concerned, political elites dispose of the context and the power to share interests, display preferences and define changes, but the outcome depends on how conceptions about Europe resonate with already constructed identities (Risse and Engelmann-Martin, 2002, p.293). As a societal identity is sustained by discursive elements rather than pre-established cultural foundation so is the view of European identity: concerned with communicative power (Delanty, 2005, p.140). Social identities claim the membership of an individual to a certain group, but individuals hold many social identities, which reveal that the evaluative components of a human being are the base to decide group's affiliation (Turner, 1987; Abrams and Hogg, 1990). In Condor's (2012) research, he ascertains that the potential adoption of the European identity is also a matter of attitude: citizens who approve European membership are more likely to conceive or import, and ultimately maintain, European spirit. Collective identity can be studied at a micro level through the eye of the European individual in terms



of emotional component, putting a focus on the individual and his feelings of belonging to a certain group, presenting a community internally and externally (Cerutti, 2008). A common “enemy” would enhance the concept of European citizenship and foster the feeling of belonging to a certain community, encouraging common European political and social projects (Stiftung, 2013). According to Kaina and Karolewski (2013, p.28) the manifestation of the European identity is influenced by every individual predispositions (experiences, attitudes, resources) and by contextual factors (cultural, institutional and process-related); which in the end can strengthen or weaken each individual’s desire of being part of an active community.

At this level, the creation of the European Union and the progressive integration of the member states have brought into question the existence of European identity (Pagden, 2002). A political union can be created as a structure where citizens agree on matters that concern them all, such as security, defense, welfare or communications, ignoring the origins of the people who lead them all. Pagden (2002) sustains that, within the European Union, the communality between state and culture would be a hindrance to the political union, the plurality conceives unity –*e pluribus unum*– and because culture is assumed to be constantly evolving, it is supposed to have the same capacity for self-reflection exactly as citizenship (Tully, 1995). Individuals’ allegiances to the importance of sharing common problems and of working together by pursuing common goals for a better future could be a background for we-feelings, construed as a condition for authentic cooperation (Kaina and Karolewski, 2013, p. 5; Stiftung, 2013; Bachofer, 2014). Beyond the political and economic aspects, the European Union must create a set of symbols – generator of demos - that have the power to transcend self-regarding regional identities and to inspire collective enthusiasm (D’Appollonia, 2002, p. 190; Stanley, 2013, p. 11; Bachofer, 2014, p. 19). The European identity can be assumed firstly, if all the social, cultural and psychic barriers are removed and secondly, if the principles of solidarity are implemented (Morley and Robins, 1995, p. 84). Pursuant to Walkenhorst (2008), for a supra-state-building, the implementation of a European Constitution is necessary and it is imperative to establish media systems and institutions in order to inoculate social security, income adjustment, tax payment and supranational regulations.

The European identity should not be defined only from the perspective of cultural and political identity, based on people and tradition; a proposal is made to see identity in a socio-cognitive form, constituted of an assemblage of evaluation, discursive practices, a plurality of identity projects which can be interpreted as a “dialogic identity” (Delanty, 2005, p.128).

Along with the enlargement of the European Union, a plurality of identities emerges, which will result in a new expression of the European identity (Fuchs and Klingemann, 2002). Identities are constantly transforming; they are not simply given, they are constructed and permanently changing with the extension of the European Union, involving a distinction between insiders and outsiders; in this respect, group identity refers to collective consciousness, belonging and group attachments (Delanty, 2005, p. 129; Frunzaru *et al.*, 2011, p. 27). Delanty (2005)



considers that, in essence, the European identity stands for a cosmopolitan identity and not for a supranational identity that transcends national identities. National identities are not expected to be abandoned by European peoples, but their reduction is necessary in favor of the European identity, in the logic of constructivism (Bachofer, 2014, p. 24). The European identity is always in progress, it cannot occur as a spontaneous will of a group or institution; it is articulated in time, through a continuous debate within the European public structures (Morley and Robins, 1995; Frunzaru *et al.*, 2011).

There are several reasons to create and to preserve common values among European Union for the sake of the International community advancement. Three of them are mentioned by Føllesdal (2014): the restraint of some member states interests in the benefit of others; the obedience of the losers in decision-making; and negotiating treaties must have a supranational concernment. Culture plays a main role in how the European Union is apprehended, delivering a suite of shared rules, values, and positive expectations (Stroeker *et al.*, 2014). Habermas (1991) has pointed out that even if democratic citizenship is not driven by national identity of the people, in spite of the plurality of cultural forms, it requires a socialization of individuals in a mutual political culture. Collective memories, transfigured in commitments and collective projects or responsibilities, emanated from the past, can unite the present to future collaboration (Peters, 2005; Walkenhorst, 2008). For most of the European citizens, their state integration means freedom of learning, travelling or working in other member states, and for fewer individuals the European Union symbolizes the guarantee for idealistic and historical values such as democracy or cultural diversity (Kenny, 2004; Walkenhorst, 2008, p. 15). Føllesdal (2014) appraises that special components of collective identity must be the trust in each other and loyalty, which does not necessarily imply other co-operative values, whereas the shared motivation might be the incentive of a common identity. Bachofer (2014) argues that, for group identity, two factors are determinant: the spatial factor - includes symbols and values that transcend national boundaries via the discourse in a public sphere- and the temporal factor – a civilization mechanism is built in time, not instantly. In the future, the European Union may evolve into a multinational public sphere, leaving behind the geographical and political structure. The contradiction between individualism and the nation-state teleology unravels through a collective identity; the degree of individualism is maintained in the circle of the formed structure and the practical politics have a double character: enabling and also constraining the possibilities of individualism and identification (Herzfeld, 2002).

The reflexive identity of any individual contains the capacity to build a community that by participation becomes able to form common opinions and unique enactment, having as a result the success of a public sphere, which transcends the boundaries of a single nation (Kaina and Karolewski, 2013). *Per a contrario*, Condor (2012) remarks that theoretically, governance of a polity does not always depend upon the reflexive consciousness of the citizens involved. Nonetheless, Dean (cited in Condor, 2012) sustains that, in liberal democratic European countries, political legitimization relies on people attending, assuming an active role, not just the role of



passive subjects. From Walkenhorst's (2008) point of view, the collective European identity construction should be administered as a project type: different speeds of integration, sub-group formation or, in some cases, the exclusion of state members that do not affiliate with the European community. The European Union has an asymmetric figure, regarded as a federation and it increases the insistent request for a shared identity, but it also generates the prospect of a real European sphere, where conceptions are commutable (Føllesdal, 2014).

Peoples do not relinquish their cultural, normative and political perspectives in order to replace them with other that cannot be counted as a higher class; they will act correspondingly in case they are given the hope of a lighter future, of an improved quality of life (Pagden, 2002). The emergence of a successful European political culture supposes the presence of three conditions: (1) a cultural program able to generate a new allegiance; (2) the evanescence of the confusion between sovereignty and identity and (3) the increase of the accessibility of the European Union for its members (D'Appollonia, 2002, p.189). The key is a public sphere providing sufficient information and transparency of political decisions and a concurrence of ideas and arguments that can give a chance to democratic participation (Peters, 2005; Kaina and Karolewski, 2013). Public deliberation is in fact a "collaborative argumentative effort" to obtain solutions to different topics put in discussion; to a certain degree, a reflective examination generates the understanding and the respect for converse positions (Peters, 2005, p.104). In this manner, collaboration gives a possible answer and the political decisions are marked by a degree of legitimacy.

1.2. New media and the EU public sphere

With the support of new media, public communication is accessible without restrictions or special conditions for participating. Nobody has an interdiction of expressing views, all the persons are free to listen, to read, to speak and actively participating to any debate. In mass media, entertainment programs and reporting news prevail, but in electronic media there are different types of news comments, news magazines and other documents providing a substantial amount of opinions and deliberative content, defined as parasocial encounters (Peters, 2005; Kaina and Karolewski, 2013; Dumitriu, 2014). A public culture facilitates public discourse, influences the ways of understanding and directs attention to common issues, having as a primary purpose constructing agendas of future applications in the community realms.

Pursuant to Jakubowicz (2012), mediated communication can be asynchronous (non-linear) on account of time-shifting and place-shifting, suitable to mobile media. The author talks about the possibility of networked communication to combine all types of communication: one-to-one communication; one-to-few communication; group communication; mass personal communication (one-to-many); mass-self communication (self-expression) and general communication (many-to-many). All interactive conversations are governed by allocation. New actors have assumed services in the distribution



operation of media functions which had been assured only by traditional media institutions; including content aggregators and users who, at the same time, produce content.

For the European citizens, the opportunity for active participation through new media, using formal –European official sites- and informal ways- social media-, is a chance of identifying with the real European identity. Conveying information to a mass audience means transferring symbols and beliefs, which are not imported immediately in people's minds, but in a "two-step flow communication", after being discussed and criticized especially by opinion leaders (Katz and Lazarsfeld, 2009). Expressing ideas and proposing topics of discussion become an effective way of contributing to the European social construction - "What is required is a vision of a political and social order that is more just and economically, culturally, intellectually, and aesthetically more compelling than the order currently prevailing in any of the independent nation-states" (Pagden, 2002, p.20).

The European public sphere is liable to foster a universe of collaboration and shared discourse, due to the flows of ideas which may be mutually adjusted, enhancing the European spirit. Peters (2005) talks about another form of transnational communication, that consists of the import and export of cultural products such as: books, films, press products, print and electronic media. Even a European song contest has the power of spreading different national cultures and promotes inter-subjectivity (Bachofer, 2014, p.40). Discursive transformation emphasizes a socio-cognitive transformation that surpasses the close context and offers learning potential (Delanty, 2005). Collective nation-states identities incorporate the selection and implementation of ideas and cognitive strategies.

For individuals with Internet access and with willingness to communicate, new media are a priceless resource for political participation. The engagement in political discourse guarantees engagement in pre-established themes and serves as a potential equalizer for all the communicators involved (Cataldo, 2014). In facilitating public discourse by involving a third party, audience integration and reach are increased, thus expanding the impact of civic collaboration (Peters, 2005; Cataldo, 2014).

From 2012, the citizenship initiative is a new form of communication, introduced by the Treaty of Lisbon, which permits to citizens to directly propose the elaboration of new legislative documents for the European Union. The introduction of this initiative allows the emergence of a wider and stronger point of view regarding the European legislation and development. The European democracy registers a new dimension, which enlarges the set of rights referring to European citizens. Public deliberation augments and it gives contribution to a sterling European public sphere as viewable on the official website of the European Parliament (<http://www.europarl.europa.eu/>). The European Commission issued documents concerning the relation between European institutions and the public, which are lead by three principles: public consultation; the influence of people's lives through European policies and contact establishment with citizens through most preferred mass media (European Parliament, 2015).



The official site of European Parliament presents the principles initiatives for EU communication: the program “Europe for citizens”, which has as purposes civic participation, European memory and the active implication of the civil society; “The Partnership for European communication”, preoccupied with the understanding of the European policies; Communication on Europe themes through the Internet; “Debating Europe”- a forum of online discussions-, “Communicating Europe through Audiovisual Media”, Presseurop - a multilingual news portal with press articles that, according to Stroeker *et al.* (2014), was closed at the end of 2013. The purpose of these tools is to contribute to a more solid coverage of European affairs by encouraging the emergence of a networked European society.

The European document released in 2007 “Communicating Europe in Partnership” has emerged as a strategy connoting European Union institutions and the member states, which aimed to improve communication policy, empowering citizens to develop the valid European public sphere (Stroeker *et al.*, 2014). Nevertheless, in practice, the activities that are organized do not succeed to persuade ordinary citizens or scholars because a public discourse has to assign two parts: the speaker and the involved-receiver; the monologue has to be surpassed by dialogue (Stroeker *et al.*, 2014, p. 43).

European citizens have access through the website of the European Commission (2015) to the “EU citizenship portal” that offers both informative and participative tools and sections such as “Your Europe”, “Europe Direct” “Citizen's initiatives” “Your voice in Europe”, “Citizens' dialogues”, “Integration” allowing information requests, advise requests, addressing complaints, lunching initiatives, public debates and so on. Although the member states have created bodies responsible for setting up the dialogue with local communities, there is a deficit in understanding the engagement furtherance and how public groups should be implicated in different Europeanization activities (Thiel, 2008).

The European Justice portal (2015) is also representative for the access to the domain of laws and regulations and it contains legislation, jurisprudence, judicial systems, juridical professions and legal networks, juridical assistance, judicial procedures and mediation, civil and criminal procedures. The official sites have the possibility for registration and receiving newsletters frequently.

The EuroparlTV website has become an area of public interest, where there are posted videos on different European topics: terrorism, finance, agriculture, economy, consumers' rights, energy, migration, border control etc. Through EuroparlTV, the wide public has access to live parliamentary sessions and the user has also the option of expressing the feedback by sending email to “eptv@europarl.europa.eu”. The web page EuroparlTV is interlocked to social sites such as Twitter and Facebook and to the applications Dailymotion and YouTube. The evaluation of EUROPA website, conducted in 2008 by Ernst & Young, shows that the website is usually used by students and administration employees and more than 60% of the users visit the website weekly (Ernst & Young, cited in Stroeker *et al.*, 2014, p. 47).

In the informational society, citizens seek to be informed, to obtain necessary documents and to pay their taxes and fines from the home or office



computer. The European Commission has its Digital Agenda that popularizes the benefits driven by informational technology and communications in all European societies (Cataldo, 2014).

Access to public information is essential to eradicate corruption and the gain of public confidence in the European governance. The website of the European Parliament confers citizens a large area of public information to promote the ideal of government transparency. Cataldo (2014) advocates for a site that can be dedicated to all the European citizens: ordinary people, journalists, lobbyists, lawyers, researchers. However, after an official site assessment, the website "Parliament and You" was generated, comprising the following sections: information; petition forms; cooperation and transparency, which tries to dispose audience (<http://www.europarl.europa.eu/atyourservice/ro>). The European Parliament gives direct access to most of its documents in electronic format. The European Parliament is more oriented to consensus, since it is directly elected by European citizens and it is defined as the expression of people's voice and the only direct democratic institution (Kaina and Karolewski, 2013, p.11).

The European Commission is the principal actor on the European area, through its legislative proposals, its role as counselor of the European policies implementation, militant of supranational behalves and manager of communication (Stroecker *et al.*, 2014, p.44). European Commission uses certain social media platforms like Twitter, Facebook, Instagram, Pinterest, LinkedIn, Google+Icon, YouTube, etc. because these communication channels are more often used by EU citizens than traditional channels such as print, television stations or EU publications. Furthermore, social sites are liable to stimulate citizens' engagement in social and political European life and in addition to information and promoting policies, social media is a way of designing responsibilities and sharing experiences (Stroecker *et al.*, 2014) On websites such as "<http://ec.europa.eu>", policies, legislative procedures are communicated to the public and there are also organized consultations for establishing political priorities. The purpose of this kind of communication is relaying official announcements, press releases and statements in a consistent and coherent manner. Besides informing citizens and promoting policies and campaigns, the goal of this type of communication includes sharing experiences and engaging stakeholders (Bargaoanu and Negrea, 2011). European Commission resorts to tools and services from third parties such as specialized sites (www.opcom.ro; www.ancom.org.ro, Google Analytics, Statscounter), blogs or social networks due to the continuous flow of users, but this involves certain risks such as privacy and data protection, persistent cookies, accuracy of information and Internet security risks The Council of the European Union system of communication is decided by the European Union presidency, and as a consequence, the techniques and the degrees of communication are established by every country that holds the presidency (De Vreese, 2003).

The European coordination systems are essential in managing European policies at national level, the Ministry of Foreign Affairs having the main role to ensure decision-making authorities intercommunication. In Romania, the primary role exercised by the Ministry of Foreign Affairs is to coordinate daily activities



(Jinga, 2008, p.120), which is reflected by receiving and disseminating all European materials from the center of the EU – Brussels. Jinga (2008) deems that the role of the Department of European bilateral relations, integrated in the Ministry of Foreign Affairs, must be redefined due to the fact that the information detained about the European actors -lobbyists from the member states, line ministries and their counterparts from other countries- has to be augmented. In Romania, efforts are being made with the aim to keep citizens informed about the European Union affairs and policies, but in the same time, with the exception of comments posted on social sites, a specialized forum misses from the Romanian scene. An official interactive forum would be the most appropriate for free debates and for facilitating the understanding of the whole European system. As example, a graphic portal that allows Romanians to contribute to European debates is EurActiv.ro, which facilitates the wide dissemination of information and provides active participation (Stroecker *et al.*, 2014, p. 58).

The European Union is willing to promote the development and dissemination of new technologies, encouraging their use in business and institutional environments and supporting that all citizens (applicants, clients and service producers) have unlimited access to the network. Still, new media are the main channels through which information can be widely disseminated, but their capitalization is still incipient. This involves that every European citizen, regardless of age, social, political or economic background, may access and use the available online channels to become a content receiver, catalyzer or creator.

2. Purpose and research questions

The present paper aims to investigate the role of new media in the formation and consolidation of a European spirit which encompasses a shared identity and the openness to becoming part of a whole. Against this backdrop, several research questions were formulated: a. Do subjects see the European Union in terms of unity, commonness or similarity?; b. What is their main reason for debating Europe?; c. How is new media catalyzing the feeling of identification with individuals from other EU states?

3. Materials and Methods

3.1. Participants

20 active users of European new media (aged between 20 and 57) answered to an interview-based survey. The participants were selected using a snowball sampling. Also, the participants were chosen taking into account their availability to talk about their standpoints regarding the European Union, the advantages of being informed and of choosing the suitable communication channels.

3.2. Procedure

In order to generate detailed and in-depth descriptions of the participants' experiences we chose to use phenomenological interviews. The interviewees' observations, perceptions and understandings were investigated by employing a semi-structured in-depth interview based on open-ended questions. This option catalyzed the opportunity to discuss some topics in a more detailed manner and the descriptions were further explored through 'probes'. We considered individual interviews more valuable to provide detailed information about the meaning of the situations and of the social contexts to each participant in the setting.

The interviews comprised 11 main questions (supported by additional clarifications) and were conducted online during April 2015. Questions were posed in a relaxed informal manner so that the interview appeared more like a discussion or conversation. The respondents were explained the purpose of the interview and were encouraged to co-operate. Still, they were not given too much detail that would have biased their responses. The objective was to uncover the widest range of meanings held by the participants in the setting. The respondents were assured of their confidentiality and anonymity in the aggregated findings.

The structure of the interview followed Seidman's (1998) three-phase qualitative interview: focused life history (the respondents' experiences were put in context, by asking them to provide as much information as possible about themselves, in relation to the topic of the study); the details of experience (concrete details of their present experience in the research topic area); reflection on the meaning (reflection on the meaning of their experience, how they make intellectual and emotional connections with the experiences that are the subject of the research topic). The answers to the interviews were categorized by carrying out a thematic analysis as a systematic way of identifying all the main concepts which arose in the interviews, and of developing them into common themes.

3.3. Measures

The analysis was focused on several key issues: 1) the users' representations of the European Union, 2) their approaches on the European citizenship, 3) their attitudes towards being informed about the EU dynamics and 4) the drivers for addressing new media when searching for relevant information about EU.

4. Findings and discussion

For the majority of respondents, EU involves the idea of unity, commonness or similarity. *"To me, the European Union is a supranational community, an active organism which continues to develop. It is a link to other European states and a guarantee of sustainable development"* (George, 28, English teacher). Similarly, Cristian (20, student) speaks about *„a union with high expectations and democratic views. It is a vivid structure which promises to ascertain a higher level to the freedom of speech and to human mind emancipation"*. Delia (45, trainer) deems that *"describing*



EU is a never-ending story in terms of political, cultural, economic views – it is always changing, readjusting, still it offers a common sense to more peoples”. Only one subject considers that EU stands for “an air of diversity, plurality in a disguised monoculture frameworks” (Madalina, 32, faculty lecturer).

Most of the subjects acknowledge their status as European citizens, although different viewpoints have been underscored. *“I know I may officially describe myself as a European citizen and I also feel like one, especially when I am travelling abroad and when I am taking advantage of my European rights - in running my business” (Vlad, 25, marketing manager).* Likewise, Alexandra (30, lawyer) mentions that there are moments when she feels *“more European than ever. When Romanian institutions fail in making justice, I find support in European institutions and special services, for example, the Ombudsman”.* Several respondents (3 out of 20) have insisted on “a twofold identity approach”, consisting of the European and national frames of reference. In this vein, Teodor (42, engineer) gives voice to the main ideas attached to the issue *“I am well aware of my dual identity (Romanian and European), but I am more fond of my European identity when I engage in professional collaborations with other faraway cultures, like the Chinese, Americans, etc.”.*

For most of the questioned individuals, Europe and, implicitly, EU stands for *“easier means to achieve supranational goals, independent of their nature, but, basically, I am referring to social or economic facilitation” (Vlad, 25, marketing manager).* In a more articulated manner, Elena (53, teacher) stresses that EU *“is all these and more. It is a catalyst for collective development, a support for the disadvantaged and an optimistic entity striving for a common direction”.* Still, four respondents have embraced unidimensional approaches, choosing only one dominant variable. For example, to George (28, English teacher), *“Europe is above all a geographical location and, which gives you a catching feeling of common identity”.* Also, Daria (28, PhD candidate) states that *“When I say Europe, I inherently think to the European Union, to the idea of a larger community, with similar or even common goals, expectations and future perspectives. I do not think traditions define Europe”.* A fact which is worth mentioning is that none of the respondents mentioned the euro currency as a bonding factor. Moreover, the euro adoption is seen as *“a menace to the community well-being as the disparities between different European regions are too severe to be controlled” (Adela, 47, economist).*

All respondents acknowledge that being informed is the key to easier solutions in all the fields, not only when it comes to the European Union. As Cristian (20, student) posit *“information is power and ignorance entails involution”.* Similarly, Alexandra (30, lawyer) explains that *“being informed about the EU is somehow a condition for knowing and applying our legal rights on different occasions – sometimes, not knowing the things which would support you in your endeavors generates disturbing failures. Everyone should understand we have the obligation to know in order to benefit from our rights”.* Daria (28, PhD candidate) confirms the general trend, stressing that *“I am very interested in accessing information about EU with a view to explore varied professional perspectives or future job employment promises. It is important to find out relevant information about everything that may influence my life: economy, law, and environment”.*



As most of the answers point out, the subjects are familiar with the European institutions and general policies, but they usually lay emphasis on specific issues in accordance with their interests, jobs, fields of activity. *“As a lawyer, I have to be informed about legal matters, about changes and adjustments. This is a must...”* (Alexandra, 30). Moreover, Madalina (32, faculty lecturer) confesses that *“the familiarity with the European institutions is mandatory if you teach these issues to your students, if keeping pace with Europe is part of your job description”*. Several subjects (8 of 20) assert that their interest in the European institutions and laws has begun once they understood their practical influence. For example, Oana (43, financial consultant) mentioned that *“in order to assist my clients about accessing European funds, I need to consistently update my information and to know the basic mechanisms”*. Hereafter, Andrei (30, entrepreneur) marks out that he is a *“loyal observant of regional disparities and of their impact on business development. My family owns a business in the agriculture field and I am consistently looking for new information on European funds and facilities”*.

As far as the EU communication is concerned, most respondents prefer the informal channels because *“they are more interactive, people with similar interests give voice to similar problems and solutions”* (Vlad, 25, marketing manager). Likewise, Andreia (41, Postdoctoral researcher) believed that *“even if EU supports a coherent formal communication through its institutions - for example, the European Parliament and the European Commission have official web pages informing all citizens about the European operations and progress - I find other channels more resourceful. However structured and well-organized official communication might seem, sometimes it is quite difficult to find exactly what you are looking for”*. The same view is shared by Victor (37, clerk) who is keen on *“debating Europe”* on blogs and forums – *“although formal communication is more desirable in terms of accuracy and actuality, I enjoy talking with peers more. The power of common interests is the most compelling incentive”*.

Respondents have systematically confirmed that they are open to various communication channels among which official websites, new media and television are most mentioned (most of them using English as a common language). Here, Adela (47, economist) comments: *“I usually resort to the official specialized sites of the European institutions in order to avoid the lack of information or errors in communication. Except these, I sometimes watch TV programs about EU, but they get me bored very quickly”*. Similarly, Magda (35, engineer) points out that *“accurate information stems from credible sources. I always look for reliable information, thus I prefer formal websites. I don’t want to lose precious time skimming through amateur opinions”*.

Still, almost all the subjects admit the attractiveness of new media whenever they try to found out more about specific EU-related issues. The general trend is articulated through the words of George (28, English teacher): *“New media are quite attractive because, beside remote opinions or fragmentary information, you may find useful data or qualitative details on focused topics”*. Furthermore, Andreia (41, Postdoctoral researcher) considers that *“the most interactive media is social media because lots of European politicians have Twitter or Facebook accounts and you may follow brand-new commentaries on European topics. I totally enjoy seeing*



controversial approaches and the so-called philosophy in action". A moderate position is expressed by Oana (43, financial consultant) who assumes the primary role of new media from the interactivity standpoint. Still, *"browsing social media should be an additive endeavor, not an exclusive one; one should also consider the official pages of European representative institutions where various resources are at your disposal - you may ask for specialized advice or make different petitions. A new generation of two-way formal communication blossoms"*.

Another important idea which emerged from the interviews is that *"new media are more interesting because we have the chance to find out different people's opinions on a European matter. It is quite exciting that someone from the Czech Republic, for example, has the same problem and is looking for the same solutions"* (Andrei, 30, entrepreneur). In the same light, Alexandra (30, lawyer) finds *"new media as a genuine source of inspiration. The legal experiences of other lawyers, from other EU countries, is frequently a step forwards and a showcase for acting correspondingly. As informed as we may pretend to be, we still need some help in our daily routine"*. Additionally, Viviana (57, legal adviser) mentions that *"I was somehow forced to resort to new media when official sources failed in providing me with coherent answers. Although it may seem frustrating, I found a suitable answer for most of my EU-related legal doubts on forums and, which is more, legal advisers from other EU countries helped me understand"*.

As far as the frequency of accessing EU information is concerned, the great majority of respondents (18 out of 20) use to search for novel information at least twice a month. There are cases where there is a *"slight addiction to debate on topic-focused forums, especially when Romanian representatives try to hide the ugly truth from the citizens, mystifying the conclusions of the European Commission, for instance"* (Adela, 47, economist). Moreover, Delia (45, trainer) underscores that *"many times, I feel that I have the opportunity to know Europe better through the voices of its citizens who are simultaneously concerned or content, indifferent of their nationalities, cultures, beliefs, etc. We are unitive in our expectations"*. Cristian (20, student) shares this viewpoint, reporting that *"I engage in debates whenever a certain matter catches my interest. This happens 2 times per week, on average. I am fond of public debates because they are a source of collective solutions"*. Andreia (41, Postdoctoral researcher) admits that she prefers virtual platforms like "Debating Europe" because *"they give you the chance to interact, discuss, share, comment, to feel important despite your anonymity. This would be a good place to revive the European seminal public sphere as users come from all EU states"*.

New media and online participation are not only useful in building a common sense or spirit for the EU citizens, but also for well-defined purposes: *"I deem that e-platforms are useful for me - as a European citizen - because I can find support in understanding policies and regulations which initially, in those hard legal terms, seem somehow encoded. I usually find here a place for public consultation"* (Victor, 37, clerk). Likewise, Oana (43, financial consultant) reiterates the importance of affiliating with online communities of interest - *"whether truly accepted or not, we are parts of a higher order which make us feel it at all levels. EU is part of our daily routine and everyday lives, although not everyone acknowledges its present with the same intensity."*

For me, it is all about work and staying in the game, for my husband, it is about financial flows and economic facilitations, for my daughter, it is mainly a question of travelling with the ID only...”.

Conclusions

For the majority of respondents, EU involves the idea of unity, commonness or similarity. Although the angles are different, the interviewed individuals acknowledge that EU stands for a catalyst framework for achieving varied supranational goals, starting from social and economic facilitation to the human rights exploitation. Likewise, most of the subjects assume their status as European citizens in spite of the different viewpoints underscored. The European citizenship does not exclude the national one – the subjects have embraced both of them as a dual identity.

Stressing on their attitudes towards being informed about the EU dynamics, all the respondents acknowledge that being informed is the key to easier solutions in all the fields, not only when it comes to the European Union. As most of the answers point out, the subjects are familiar with the European institutions and general policies, but they usually lay emphasis on specific issues in accordance with their interests, jobs, fields of activity. In few words, the communities of interest are of the essence, catalyzing the orientation of widely-spread users towards similar goals.

Correlatively, as far as the EU communication is concerned, most respondents prefer the informal channels because they are more interactive, people with similar interests give voice to similar problems and solutions, independent of their countries. They have systematically confirmed that they are open to various communication channels among which official websites, new media and television are most mentioned. Still, almost all the subjects admit the attractiveness of new media whenever they try to find out more about specific EU-related issues. The general trend is that new media are attractive because, beside remote opinions or fragmentary information, one may find useful data or qualitative details on focused topics, you may access relevant data in an active manner.

Due to the fact that the respondents were chosen based on the criterion of active participation in EU-related new media, they search for novel information at least twice a month. As the evidence showed, new media and online participation are a strong facilitator for building a common sense or spirit for the interviewed subjects who primarily engage in debating Europe with a view to find an answer, an approach on specific issues.

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MARITIME SECURITY GOVERNANCE IN THE FIGHT AGAINST PIRACY OFF THE COAST OF SOMALIA: A FOCUS ON THE EU RESPONSE

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Abstract: *Although currently on a declining trend, large scale piracy off the coast of Somalia cannot be safely dismissed as a thing of the past: since the mid-2000s, piracy in the Western Indian Ocean has put in peril the international and regional security. Maritime threats are interdependent, asymmetric, persistent, shifting and generated by manifold and mutually-reinforcing root causes, hence their high probability of recurrence or relocation in the absence of a generally improved and self-sustaining security environment. Confronted with these complex challenges, numerous state and non-state actors have taken steps to prevent, mitigate or suppress piracy off the Somali coast. Within the security governance framework, the present paper outlines the major actors activating in the counter-piracy field in the region and their specific responses, focusing on the comprehensive measures undertaken by the EU in this realm.*

Keywords: piracy; Somalia; maritime security; security governance; European Union

Introduction

The issue concerning maritime piracy emanates a sort of permanence in world politics. A French author once said that piracy is „*une activité vieille comme la mer*” (Sartre, 2009, p. 296). Throughout the time, piracy has been a source of concern and unease among leaders, merchants, travellers, and sailors. Piracy plagued the Eastern Mediterranean between 1000 BC and 67 BC (Alexander and Richardson, 2009, p.10); it had the power and urgency to gather the most powerful European city states into the Hanseatic League; and over the last decade it has attracted an unprecedented interest and preoccupation within the international community. The sharp rise in the incidence and violence of attacks in the African waters after 2008 prompted a multi-level and multi-dimensional response on behalf of a plethora of state and non-state actors. Without intending to be exhaustive, this

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paper reviews the key counter-piracy actors off the coast of Somalia and the relevant measures undertaken by such actors; a special emphasis is placed on the EU efforts to provide a comprehensive response to piracy in the region.

The article is structured as follows. The first section briefly presents the general conceptual framework of security governance and then turns to the more specific notions of maritime security and maritime security governance, placing piracy into this context. The main challenges posed by piracy off the Coast of Somalia and the main regional and international responses are outlined in the second section. Lastly, the EU's comprehensive approach in tackling piracy in the region are examined more in-depth in the third part of the paper.

1. Charting Responses to Piracy off the Coast of Somalia: the Usefulness of a Security Governance Approach

1.1. Dealing with Complexity: The Security Governance Approach in International Relations

Although envisaging a link between security and governance is not a novel endeavour *per se*, security governance as we understand it today has only been developed over the last decade. The concept emerged out of the need for a comprehensive framework able to grasp the intertwined transformations taking place in the security realm: the multiplication of security actors, the expansion of the security agenda and the institutionalization of security topics and discourses (Christou and Croft, 2010, p.1). The origins of this approach are to be found in the so-called „governance turn” in International Relations and European Studies beginning with the 1990s, which marked a departure from „a focus on states and hierarchical modes of policy-making towards horizontal networks within and beyond the state” (Norheim-Martinsen, 2013, p. 9).

Four main stages have been distinguished in the evolution of the body of security governance literature: the first, focusing on definitional matters; the second, engaging in theoretical debates; the third, concentrating on the application of the concept to the European setting; and finally, the fourth, examining security governance beyond Europe and globally (Sperling and Webber, 2014, p. 126).

Despite these advancements, security governance persists outside the mainstream debates in the International Relations and EU studies literature: to a great extent, this omission has been attributed to the under-development of the concept, to its „pre-theoretical” status (Sperling 2014, p. 3). In this light, both the strengths and weaknesses of security governance have been reassessed in contrast with the previous approaches to security studies. A great emphasis has been placed on the concept's added value in terms of comprehensiveness (as it seeks to accommodate the hierarchical and heterarchical interactions between state and non-states actors alike, without assuming *a priori* the prevalence of one over the other); elasticity and “integrative” power (as it attempts to transcend the pervasive theoretical divisions in the current mainstream security debates - especially to ‘bridge the gap’ between various strands of neorealism, neoliberalism and social

constructivism); and focus on the practices and mechanisms employed by state and non-state actors to achieve security, which makes this approach suitable for empirical research (Sperling 2014, Wagnsson *et al.* 2009). At the same time, identifying and seeking to address the weaknesses of the approach is imperative if security governance is to gain prominence within well-established theoretical bodies. For instance, the opposing tendencies of „conceptual stretching” and „conceptual compression” (Sperling 2014, p. 4) both entail risks: in the first case, the uncritical and indiscriminate application of the security governance lenses empties the concept of any real significance; in the second case, restricting its application solely to the European and Transatlantic area renders the approach unfit for the study of other regions of the world. Other limitations include an over-emphasis of the importance of the „governance” component at the expense of the „security” element; the disjunction between the literature dealing with governmental organization and the one focused on non-state actors, or the disconnection between studies on security governance and those on regionalism (Ceccorulli and Lucarelli 2014, p.1).

In examining the diversity and complexity of the counter-piracy actors and measures, the security governance approach provides a particularly useful framework for discussion, as it enables the incorporation of a multitude of state and non-state participants in the provision of security without presuming the predominance of one category over the other; it considers the instruments and the mechanisms employed by such actors to achieve security; and it remains sensitive to the broader shifts occurring in the security environment and agenda.

Security governance bears distinct meanings for different authors. In one of early studies on the concept, Webber comprehensively defines security governance as: „the coordinated management and regulation of issues by multiple and separate authorities, the interventions of both public and private actors...formal and informal arrangements, in turn structured by discourse and norms, and purposefully directed toward particular policy outcomes” (Webber *et al.* 2004, p. 4). For the purposes of this paper, Webber’s definition proves its usefulness for at least three main reasons. First, although the key role of the state in the provision of security is not dismissed as unimportant, the existence of multiple centers of power and the importance of alternative actors is acknowledged. Second, both formal and informal forms of interaction are taken into account. Third, the actors’ endeavours are assumed to be shaped by a collective purpose.

Bearing in mind these general observations about security governance, the following section analyses the concepts of maritime security and maritime security governance which provide the context for understanding piracy as a security threat.

1.2. Context Matters: Maritime Security, Maritime Security Governance and the Threat of Piracy

Despite its widespread use in the realm of security and defence, law, policing, shipping industries, governments, international organizations, agencies and NGOs, as well as in the academic literature, the concept of maritime security



lacks a commonly-agreed meaning. Different actors may have different understandings of maritime security. For instance, those operating within the defence forces may be preoccupied with safeguarding the national borders, territory and resources against a potential attack by sea; for others activating in the shipping industry, maritime security may be closely related to the free-flow of goods at sea and the safe travel of cargoes, crew and passengers; while for still others engaged in protecting the individuals and the civil society, maritime security may be mostly about mitigating the risks posed by the trafficking of drugs, weapons or people, irregular migration or illegal fishing.

To complicate matters further, relevant documents, such as the Law of the Sea Convention (LOSC) or the instruments of the International Maritime Organization (IMO) are silent in this regard.

Bueger's description of maritime security as „one of the latest buzzwords of international relations” captures well the fuzziness surrounding the term: although conceptual ambiguity might foster cooperation in the absence of agreement, it nevertheless entails the risk of obscuring real political agendas and potential conflicts (Bueger 2015, p. 159, Papastavridis 2013, p. 14). Generally, maritime security has been defined in negative terms, i.e. by reference to the absence of a set of pre-identified threats (Klein 2011, Kraska 2013, Roach 2004, Vreÿ 2013). According to this view, maritime security definitions vary greatly in the breadth of scope -from a narrow understanding centred on territorial defence, to broader perspectives looking at a plurality of security threats. Such a comprehensive enumeration is provided by the UN Secretary General in his *Report on Oceans and the Law of the Sea* (2008) which distinguishes seven „threats to maritime security”, namely: piracy and armed robbery against ships; terrorist acts against shipping, offshore installations and other maritime interests; illicit trafficking in narcotics and psychotropic substances; smuggling and trafficking of persons by sea; illegal, unreported, and unregulated (IUU) fishing; and international and unlawful damage to the maritime environment (UN General Assembly 2008, para. 39). A similar perspective can be found in the *CARICOM Maritime and Airspace Security Co-operation Agreement* (2008) which refers to potentially threatening activities for the security of its member states or of the region in its entirety as follows: illicit trade in drugs, arms or persons; terrorism; threats to national security; smuggling; irregular immigration; severe pollution of the environment; damage brought to off-shore installations; and at last, piracy, hijacking and other serious crimes (CARICOM Agreement, 2008, art. I, para. 2).

Under different definitions, maritime security is viewed as „a stable order of the oceans” (Kraska, 2013, p. 1) or as „a good order at sea” (Till, 2004, p. 10), while other authors have advanced more nuanced understandings, either in relation to concepts such as „maritime safety” or „sea power”, to the securitization framework, or to the security practice theory (Bueger, 2015).

For the purpose of this paper, the co-existence of a plurality of counter-piracy actors with distinct perspectives on maritime security (and subsequently on piracy) and operating at multiple levels and dimensions, reveals the utility of a broad understanding of maritime security accommodating these differences. A



relevant point of departure is provided by Klein *et. al* defining maritime security as: „the protection of a state’s land and maritime territory, infrastructure, economy, environment, and society from certain harmful acts occurring at sea” (Klein *et al.* 2010, p. 8) – including piracy.

Two observations are important at this point.

First, in this article piracy is framed in terms of threat to the (regional and global) maritime security.

Second, by correlating the definitions of security governance and maritime security outlined above, it follows that a discussion on counter-piracy in the context of maritime security governance implies a focus on the main actors fighting against piracy in the region as well as on their most relevant policies, mechanisms and instruments targeting piracy at different levels and dimensions. This endeavour is undertaken in the following sections of the paper.

2. Fighting against Piracy off the Coast of Somalia

2.1. Mapping the Environment: The Challenge of Piracy off the Coast of Somalia

Despite being an age-old problem, it was not only until the late 1980s that modern piracy rose to prominence in international for a such as the International Maritime Organization (IMO) or the International Chamber of Commerce (ICC) (Bueger, 2013, p. 92). Before 1990, sporadic incidents of armed robbery had been recorded off the coast of Somalia, but they were far from being considered a menace to the security of the international community. Throughout the half-decade, more structured forms of piracy emerged: armed groups operating in the territorial waters of Somalia attacked vessels and held them for ransom under the claim of protecting the Somali fishing resources from pillaging by foreign fishermen and the coastal waters from waste dumping in the absence of effective policing. After 2000, the incidents’ rate and violence rose considerably, with an unprecedented escalation of attacks in 2006- 2008 (UN International Expert Group on Piracy off the Somali Coast, 2008, p. 14). According to the data provided by IMO, the reported acts of piracy had more than doubled in 2008 compared to the previous year, increasing from 60 to 134 (IMO Report on Acts of Piracy and Armed Robbery against Ships, 2008, p. 1); however, it was the *Ponant Affair* in April 2008 which triggered a genuinely committed international response, after the French yacht *Ponant* and its passengers had been taken hostage by Somali pirates (Geiss and Petrig, 2011, p. 16).

Additional to the pervasive poverty, dramatic environmental degradation, resource depletion and the general volatile security situation in the region, a mix of factors accounted for the sharp rise in Somali piracy: the collapse of the government in Puntland (the region where most of the piracy-related activities were based), the quick adaptation of piracy towards a successful „business model”, and the extensive use of mother ships (Guilfoyle, 2013, p. 38). Most frequently, the practice involves hijacking fishing vessels in order to use them as mother ships for



launching an attack on even larger merchant ships, which in turn are held for ransom and/or employed as mother ships. The Somali piracy presents unique features shaped by a set of indigenous conditions and factors, including the wide pool of recruits (due to the endemic poverty and persistent unemployment), the willingness of pirates to assume great physical risks, or the existence of effective „clan networks” in the absence of a government able to enforce the law. For these reasons, the danger of replication of the Somali model elsewhere is highly unlikely. Nevertheless, the measures undertaken by the international community to suppress piracy have arguably led to a relocation of pirate activities in other parts of the Indian Ocean while the improved security measures adopted by ships might have resulted in an exacerbation in the violence of attacks (Guilfoyle, 2013, p. 44). Considering these aspects, it becomes increasingly clear that counter-piracy actors operating off the Somali are confronted with a difficult mission in mitigating *both* the visible effects and the underlying causes of piracy, in an extremely instable and shifting environment. The following section provides a concise overview of such international and regional efforts.

2.2. Mapping the Main Actors: International and Regional Responses

One of the first governance vehicles for debating counter-piracy was the International Maritime Organization (IMO), the first international body focusing exclusively on maritime matters. Established in 1948 as a specialized UN agency, IMO has as a main task the establishment of a universal regulatory framework for the shipping industry. In the early 1980s, the problem of the sharp rise of piracy and armed robbery against ships was discussed for the first time within IMO and almost two decades later, the IMO launched an anti-piracy initiative with the purpose of facilitating the establishment of regional agreements on the implementation of counter-piracy measures. Within IMO, the major bodies concerned with questions of maritime security, piracy and armed robbery are the Military Safety Committee (MSC) and the IMO Council which have represented instrumental for a for the elaboration of counter-piracy strategy. Although initially reluctant in fully engaging in counter-piracy issues, the launching of the campaign „Piracy- Orchestrating the Response” in 2011 and the appointment of a Special Representative on Piracy a year later marked a shift towards a stronger role of IMO in the field (Bueger, 2013, p.99). The IMO has been instrumental in the adoption of the Djibouti Code of Conduct (DCoC) concerning the Repression of Piracy and Armed Robbery against Ships in the Western Indian Ocean and the Gulf of Aden, a non-binding instrument which seeks to promote regional cooperation in maritime security. In the implementation of the DCoC, IMO has been actively supported by the UN Office on Drug and Crime (UNDOC) and the EU. Additionally, the IMO Maritime Knowledge Centre (MKC) makes available information resources and specialized collections including an archive of official documents, IMO Publications and resources on maritime and shipping topics.

The main organization in countering Somali piracy is the United Nations Contact Group on Piracy off the Coast of Somalia (CGPCS). Established in 2009

following a UN Security Council Resolution 1851, the Contact Group takes the form of an ad-hoc, loosely institutionalized international forum which reunites nearly 80 participating countries, industry groups and international organizations – including the African Union, the Arab League, the European Union, the International Maritime Organization, the North Atlantic Treaty Organization – and several departments and agencies within the United Nations. The Contact Group comprises four working groups, focusing on: operational coordination and capacity-building; legal aspects; awareness generation and capability improvement; and lastly, illicit financial flows related to piracy. In 2010 a Trust Fund to Support the Initiatives of States Countering Piracy off the Coast of Somalia was instituted by the Contact Group in order to support the activities associated with the prosecution and detention of pirates (UN, 2015).

In terms of multilateral naval missions, the EU NAVFOR-Operation Atalanta (discussed in the third section of the paper), the Operation Ocean Shield by NATO and the US-led Combined Maritime Task Forces (CMF) have played a vital role in fighting piracy.

Since 2008, NATO has been one of the first and most active actors in counter-piracy in the region launching three successive operations, namely Allied Provider, Allied Protector and Operation Ocean Shield. Within this framework, NATO has escorted WFP chartered ships, has conducted deterrence patrols and surveillance tasks, has prevented and disrupted hijackings and armed robbery and more recently, it has broadened its focus to include not only at-sea counter-piracy activities, but also regional capacity building initiatives. The North Atlantic Alliance's operations have been carried out in coordination with other counter-piracy initiatives undertaken by the EU, the US, China, India or South Korea. NATO also has an important role in the dissemination of information on maritime issues. For instance, the NATO Shipping Centre (NSC) represents the main point of contact between NATO's naval forces and the maritime community for exchanging merchant shipping information, supporting NATO, national and multinational maritime operations; the NSC also provides information to merchant shipping about potential maritime risks and seeks to foster co-operation between military commanders and commercial shipping operators.¹

Several regional inter-governmental organizations are also vehicles of governance in the counter-piracy field, with a higher or lesser degree of influence: The African Union, the Common Market of Eastern and Southern Africa (COMESA), the East African Community (EAC), the Intergovernmental Authority on Development (IGAD) and Southern African Development Community (SADC), as well as Indian Ocean Commission (IOC).

Among these, the African Union (AU) has been the most prominent actor. Its counter-piracy initiatives include the African Maritime Transport Charter and Maritime Transport Plan of Action, the Durban Resolution on Maritime Safety,

¹ NATO Shipping Centre (2015), "About Us", available at: <http://www.shipping.nato.int/Pages/aboutus.aspx> (accessed 7 May 2015).



Maritime Security and Protection of the Marine Environment in Africa, and Africa's Integrated Maritime Strategy (2050 AIM Strategy). Moreover, the AU participates in the CGPCS, the DCoC, and the Regional Conferences on Piracy organized by the Eastern and Southern Africa – Indian Ocean (ESA-IO) countries. In 2007, the AU initiated the African Union Mission in Somalia (AMISOM), a regional peacekeeping mission with a UN mandate to strengthen and consolidate the control of the Federal Government over the Somali territory, enable the provision of humanitarian assistance, and protect the AU and UN personnel and equipment. Within its maritime dimension, AMISOM undertakes limited naval operations in coordination with other international actors; these initiatives generally focus on providing protection through the use of vessel protection detachment (VDP) to the AMISOM shipping, securing the Mogadishu coastline, engaging in preventive measures against a potential maritime attack in the region and ensuring the security of ships docked in the Mogadishu and Kismayo seaports.

Solutions to the problem of piracy have been sought outside formal settings as well. For instance, the Oceans beyond Piracy program (OBP), a project launched in 2010 by the One Earth Future Foundation (OEF) - a private non-profit organization based in the US - gathers a wide network of experts through its meetings and workshops and provides research and analysis. The response of OBP revolves around three core areas: gathering the support of stakeholders from the maritime community; developing close partnerships between the public and the private sectors, and contributing to the deterrence of piracy through a strong rule of law (Oceans Beyond Piracy, 2013). The Project Implementation Unit (PIU) of the DCoC process reunites specialists in operations and training, technical systems and maritime law under four main pillars: training, capacity building, legal, and information sharing (IMO, 2015). Another relevant example of informal mechanism of meetings is the Shared Awareness and Deconfliction Mechanism (SHADE) founded in 2008 in order to avoid redundancies within the activities of the countries and coalitions undertaking military counter-piracy operations in the Gulf of Aden and the western Indian Ocean. Among other initiatives, SHADE has been instrumental in coordinating convoys through the Internationally Recognized Transit Corridor (IRTC), discussing solutions to extend the coverage of maritime patrol aircraft, and tackling the challenge of piracy in the Bab el Mandeb Strait.

Within this framework, regular meetings are held in Bahrain while the co-chairing is ensured on a rotational basis by the Combined Maritime Forces (CMF), NATO and EUNAVFOR. Since its establishment, SHADE has brought together military and civilian representatives, international organizations, governments, and the maritime industry. Besides its main function of coordinating and de-conflicting on-going military counter-piracy operations in the region, SHADE is also an important forum for sharing information and exchanging views between a wide range of stakeholders - including CMF, EU NAVFOR, and NATO, but also independent navies under the flag of China, Russia, India, Japan, South Korea and Ukraine. Other informal forums include annual international conferences and regular meetings of the industry representatives, such as those held by Intertanko or Bimco.



Individual countries may have meaningful contributions to the counter-piracy field as well: the US, China, Russia, India, South Korea, Singapore, Malaysia, Japan and a multitude of European states have deployed warships in the region (van Ginkel *et al.*, 2009 p. 2). Private military security companies (PMSC) have also played an increasingly important role in counter-piracy activities beginning with 2008. Generally, PMSCs are employed for carrying out security audits of vessels, training the crew on how to respond to attacks, supporting the recovery of hijacked ships and the negotiation of ransoms, or deploying guards and escorting boats in high-risk areas. Compared to other actors, PMSC present several advantages, such as an effective deterrent role, the ability to provide one-on-one protection and the alleviation of the burden borne by state actors in conducting counter-piracy missions. Nevertheless, their use is not free of controversy, given concerns related to their costs, rules of engagement or *bona fides* (Chalk, 2012).

The brief presentation above of the major actors fighting against piracy off the coast of Somalia is by no means exhaustive, with still many other actors contributing to the counter-piracy efforts. After mapping several measures undertaken by the actors which have been most involved in counter-piracy activities in the region, we now turn our attention to the EU response.

3. The European Union Security Governance in the Fight against Piracy off the Coast of Somalia

Acknowledging the multi-faceted character of the Somali-based piracy, the EU is addressing this security challenge through a long-term „comprehensive approach” encompassing political, diplomatic, military, legal and development instruments, which arguably confers it a unique position among other contributing actors (EEAS, 2015a). The EU engagement in the region is guided by the provisions of its Strategic Framework for the Horn of Africa (2011) which identifies five major priorities for action: building robust and accountable political structures; cooperating with the countries in the region and with international organizations in conflict resolution and conflict prevention tasks; mitigating the security threats in the region and preventing their spread through piracy, terrorism or irregular migration; promoting economic growth in the region; and finally, contributing to the political and economic regional cooperation². In Somalia, the security environment has been precarious for years due to the complex and multiple crises it faces. The absence of a government able to enforce the law, the severe social tensions, the extreme poverty and scarcity of resources, the challenges posed by climate change, the migration and refugee flows as a result of the political unrest, and small arms proliferation- are all interconnected factors favouring the flourishing of the piracy in the region.

² Council of the European Union (2011), “Council conclusions on the Horn of Africa. A Strategic Framework for the Horn of Africa”, 3124th Foreign Affairs Council Meeting, Brussels, 14 November, pp.1-12.



In order to tackle these overlapping and interdependent aspects of the crisis, the EU has focused its efforts around measures revolving major areas including development, humanitarian aid, political dialogue and security. The EU represents the largest donor to Somalia, with a budget of approximately 500 million EUR from the European Development Fund (EDF) devoted in 2008-2013 to areas including state building, education, food security and economic development, and health. In addition, annual and multi-annual allocations from the EU budget are directed towards thematic programs addressing democracy and human rights, food security, energy and water, humanitarian aid, environment and resource depletion. In terms of humanitarian assistance, the European Commission has been an active actor in Somalia since 1994, with a budget of 49 million EUR in 2014 being allocated for areas including food security, health, nutrition, shelter, water, sanitation and hygiene, coordination of aid and more recently, support to displaced families (European Union External Service, 2012).

In the political and security realm, the EU efforts have concentrated on providing political and security support, development assistance and humanitarian aid as a contribution to the stabilization, democratization, sustainable development and eradication of the root causes of piracy and organized crime in Somalia. The years of 2012-2013 marked an important milestone for Somalia seeking to regain the ownership and leadership of its transition process towards stabilization. A year after the election of President Hassan Sheikh Mohamud and of a new Federal Government of Somalia (FGS) in 2012, a New Deal Compact announced „a new political, security and development architecture framing the future relations between Somalia, its people, and the international community” (The Somali Compact, 2013). In a shift away from the traditional development assistance paradigm, the document stresses the importance of national priorities and policies, of consolidating the institutional capacity and of fostering a closer partnership with international donors, including with the EU. Additionally, a Special Representative (EUSP) to the Horn of Africa was appointed in January 2012 to support the High Representative of the Union for Foreign Affairs and Security Policy and to act as an interface between the EU and the Somali government. More recently, on 9 May 2015 during the celebrations for Europe’s day, the EU announced in Mogadishu the opening of a Delegation office to Somalia.³ The EU decision to formally guarantee its presence in Somalia- made public on a symbolic date -is indicative for its long-term commitment to the region.

The Union’s engagement in the area also includes an important security component following the same „comprehensive approach” which aims to address both the root causes and the symptoms of the Somali crisis. For this purpose, the EU has provided substantial financial and planning and capacity building support to the African Union Mission in Somalia (AMISOM) since its establishment in January 2007. Up to now, the EU has contributed over 580 million EUR to AMISOM through the African Peace Facility (APF), covering expenses related to

³ For further details check the *EU Special Representatives*, available at: http://eeas.europa.eu/background/eu-special-representatives/index_en.htm

AMISOM troops allowances, the police component of the mission, the international and local civilian personnel and the administrative costs of the mission's offices in Nairobi.⁴

A major undertaking of the EU is the conduct of three complementary missions under the framework of its Common Security and Defence Policy (CSDP): EU Training Mission Somalia (EUTM), EU Naval Force (EU NAVFOR) - Operation Atalanta, and EUCAP NESTOR.

Launched in April 2010, EUTM has contributed to the strengthening of the institutional framework of Somalia, by providing military training for more than 5,000 Somali troops from the Somali National Army. Starting with its third mandate (January 2013-March 2015), the focus of the mission broadened to encompass not only a training role, but also strategic advisory and mentoring activities, a change greatly facilitated by the relocation of the mission HQ from Uganda to Mogadishu in January 2014.⁵ The current mandate (extended until December 2016) marked the further consolidation of the advisory component, indicating an increasing focus on providing mentoring to Somali trainers to enhance local ownership of the training process

EUCAP NESTOR is a civilian regional capacity building mission launched by EU in July 2012 in order to contribute to the maritime security of Djibouti, Kenya, Somalia, Seychelles and Tanzania by providing advice, mentoring and training in these states. A special emphasis is placed on the consolidation of the maritime criminal justice system across the Horn of Africa and the Western Indian Ocean; for this purpose, the mission experts have engaged with a wide range of regional actors operating in the maritime security field, including navies, coast guards, civilian coastal police, prosecutors, judges and others. One of the major tasks of the mission – and arguably the most challenging – is to support the establishment of Somalia's judiciary and coastal police force within a wider legal and regulatory framework. To a lesser extent, the mission also benefits from military expertise, which allows it to create „a bridge” between the other two CSDP missions in the region.

Out of these three EU maritime operations in the region, Operation Atalanta has received the most extensive coverage in the International Relations and legal literature (Germond and Smith, 2009; Nováky, 2012; Riddervold, 2014; Geiss and Petrig, 2011, Koutrakos, 2013, Koutrakos and Skordas, 2014; Kaunert and Zwolski, 2014; van Ginkel, 2014). This widespread attention can be explained by at least three factors. First, the unprecedented upsurge of piracy off the coast of Somalia has transformed a regional challenge into a global economic, geopolitical and humanitarian problem, resulting in a myriad of international responses. Second, Atalanta was regarded as the „flagship EU response to the problem of piracy” (Kaunert and Zwolski 2014, p. 599) and since it represented the first EU-

⁴ For further details see *The Africa- EU Partnership* at <http://www.africa-eu-partnership.org/areas-cooperation/peace-and-security/achievements-and-milestones/african-led-peace-support>

⁵ See the *EUTM Somalia Factsheet*, available at http://www.eeas.europa.eu/csdp/missions-and-operations/eutmsomalia/docs/factsheet_eutm_somalia_en.pdf



led maritime operation, it marked an important step in the emergence of the EU as an autonomous military actor. Third and closely related, the operation constituted an intriguing case not only for analysing the prospects of EU's military „actorness” (Riddervold, 2011, Kaunert and Zwolski, 2014) but also for reassessing its relations with other regional actors, most notably NATO (Riddervold, 2014a, Riddervold, 2014b, Gebhard and Smith, 2015). Operation Atalanta was launched in December 2008 in support of UN Resolutions 1814 (2008), 1816 (2008) and 1838 (2008) with a fourfold purpose: the protection of the vessels of the World Food Programme (WFP), African Union Mission in Somalia (AMISOM) and of other vulnerable shipping; the deterrence and disruption of piracy and armed robbery at sea; the monitoring of fishing activities off the coast of Somalia; and lastly, the support of other missions undertaken by the EU or by other international organizations. For this end, the EU NAVFOR assets patrol the Internationally Recommended Transit Corridor (IRTC) in the Gulf of Aden and the Indian Ocean, conduct reconnaissance and surveillance operations, locate suspicious vessels and disrupt piracy and armed robbery, spread awareness of the Best Management Practices (BMP), and provide support to the UN Food and Agriculture Organization (FAO). With a varying composition determined by the rotation of the units provided on a national basis, the operation generally includes approximately 1,200 personnel, 4-6 combat vessels and 2-3 Maritime Patrol and Reconnaissance Aircraft (MPRA) under the command of the Operational Commander in Northwood and the Force Commander in Djibouti.⁶ In addition to the more visible, military component, Atalanta also includes a web-based platform– the „Maritime Security Centre- Horn of Africa”. Established in cooperation with the shipping companies and operators, MSC-HOA permanently monitors the registered vessels transiting the Gulf of Aden, enables real time coordination between counter-piracy actors in the region and disseminates anti-piracy guidance. The development and continuous use of this platform by state and non-state actors alike - including NATO, the US, China, Japan, Russia, South Korea, Malaysia and the Seychelles - proves that the EU is increasingly assuming a coordinating and facilitator role in the region, not only by employing ‘traditional’ civil - military assets, but also by resorting to more innovative frameworks.

Concluding Remarks

To sum up, this paper aimed to provide an answer to three interrelated questions as follows: Which are the most important actors operating in the counter-piracy realm off the coast of Somalia? What mechanisms and instruments are employed by these actors to respond to the perceived menace? And finally, what is the European Union's role and approach in its fight against piracy in the region?

The security governance approach proved particularly useful for this end: it has facilitated the inclusion of a broad range of state and non-state actors without

⁶ For further details see “Deployed Units”, European External Action Service at: <http://eunavfor.eu/deployed-units/mpras/#news-tabs> (accessed 3 May 2015).



implying a hierarchization of relations; it has enabled the examination of the instruments and mechanisms at the disposal of these actors to fight against piracy; and it has taken into account the proliferation of security tasks and the expansion of the security agenda.

As previously noted, fighting against piracy and more broadly, achieving maritime security entails complex tasks which require the contribution and cooperation of numerous state and non-state actors operating at different levels of government and on different dimensions. In a decentralised and fragmented environment, international organizations and private actors have acquired a crucial role through a process of diffusion of power - however without replacing the states' pivotal position. Within this context, the contribution of the EU to the counter-piracy field entails the important advantage of comprehensiveness: a wide set of mechanisms and instruments are used in order to tackle both the causes and the effects of piracy off the Somali coast.

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HOW A TOURIST DESTINATION MAY BECOME A BRAND BY MEANS OF EVENTS – A CASE STUDY ON IASI AS A CANDIDATE FOR EUROPEAN CULTURAL CAPITAL 2021

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Abstract: *This paper presents an analysis on the impact generated by hosting the International Festival of Education, 2013 edition, on Iasi's image and its contribution in the competition for winning the title "European Capital of Culture 2021". The article reviews aspects related to culture, events and city branding, the strategy and the effects of hosting a cultural event on the host city. Cultural event was discussed as a tool used for urban regeneration and branding a tourist destination. Moreover, statistics show how the event contributed to increase tourism in Iasi.*

Keywords: destination image; city branding; cultural events

Introduction

The information provided by researchers in the field of archaeology, history, culturology and art confirms the theory that festivals are the oldest form of culture. According to the well-known Russian culturologist Bakhtin, "the festival is the first form of human culture". Another Russian scientist, Genkinthought, states that "the deep roots of the festivals disappeared in the human childhood" and the Polish scientist Ghigulevskiy states that "festivals have been held since the ancient times."

1. Literature Review

1.1. Culture and events

According to Philip Kotler, events are manifestations that are intended to convey specific messages to target audiences. Depending on the audience participating and objectives set, events can be classified into direct events

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(exhibitions, fairs, conferences) and indirect events (Femina Miss India and Wills World Cup).

Regarding the indirect events, participants are not necessarily the target audience, but the media coverage and *word of mouth* advertising helps the event to reach a much larger audience. Such events have a role in building the brand image and can be classified into corporate events, public relations events and entertainment events.

According to researchers McCartney and Osti, organising cultural events has seen a rapid development in the last decade, becoming the attributes of tourists' attraction destinations. Many cultural events are, in fact, adopting the ancient rituals and traditional forms created by destination managers in order to improve the development of tourism in that region.

Culture as a dimension of an event, is one of the strongest attractions in terms of facilitating a genuine experience of place (Hinch and Barr, 2005, p 260). However, organising cultural events comes with the risk of mitigating the importance of intrinsic meanings behind it. This can lead to a situation where the event becomes an entertainment or show, thus destroying cultural authenticity (Getz, 1998), which was probably the main initial attraction of the event. Such cultural events are also leading to crowded destinations to replicate successful themed festivals, motivating more and more the destinations to examine their own histories and cultures in order to create their own distinct and indigenous themed events.

The information provided by researchers in the field of archaeology, history, culturology and art confirms the theory that festivals are the oldest form of culture. According to the well known Russian culturologist Bakhtin, "the festival is the first form of human culture". Another Russian scientist, Genkinthought, states that "the deep roots of the festivals disappeared in the human childhood" and the Polish scientist Ghigulevskiy states that "festivals have been held since the ancient times."

1.2. Events and city branding

The simplest definition of the brand, according to Simon Anholt, characterises it as "the garment that is clothed by the identity of a company, of a product or service in order to be recognised." A summary of the brand is presented based on combining elements: logo, symbol, colours, font, slogan, sometimes sounds or music, but the fundamental idea of the brand is that by its entire business, a company must create a clear picture about itself and its goals.

Stephen Liute defines the brand as "a unique combination of competitive sustainable advantages (associations, characteristics, experiences, expectations) specific to an organisation or product." The branding activity is characterised by keywords such as "differentiation", "innovation", "creativity", "uniqueness", "interest / attraction".

The branding has become one of the most powerful tools of marketing strategies. Following the studies and researches conducted by experts in the field, academics and practitioners, an agreement was reached according to each the



places (tourist destinations, in this case) can benefit from a branding process in same way as consumer goods or services. Thus, the concept of branding has been expanding beyond the commercial zones, migrating from the original scope of consumer goods to services, lately including the social events, representing the artistic, sporting or academic brands. Branding has recently expanded to the nations, communities, regions or cities, and unlike product branding, the place one is much more different. Destination branding is a relatively new concept, which is why there is a lack of empirical academic research on this subject.

As Ruxandra Popescu states in “Rolul strategiei de brand in promovarea si dezvoltarea oraselor” (*Role of brand strategy in promoting and developing the cities*), a successful brand has recently been defined as a product, service, place or person easily identified, developed in a way for the buyer or user to perceive as having relevant unique values that best fit their needs and desires. The importance of destination branding is clarified by Morgan and Pritchard: the battle for customers in the tourism industry will be won not by price competition, but by the competition between the consumer's mind and heart; essentially branding will be the key to success. Moreover, Cai argues that marketing agencies have a major interest in building strong and positive images for their tourist destinations.

City brand is defined as “the sum of all perceptions and associations that people have about a particular city.” Therefore, the perceived tourist destination image will be formed by the promoted image of the destination and of the person's own needs, motivations, prior knowledge, preferences and other personal characteristics. So branding involves actions of managing the city's image as a result of its components: tourism, culture, history, lifestyle, fashion etc.

Due to changes in the tourism sector, competition for tourist products and destinations, change of the demands and behaviour of tourists, tourist destinations need to be created as brands and managed strategically. From this perspective, brand image plays a key role in the success of a tourist destination as the destination image, seen as a mental image formed by a set of attributes that defines its destination and size, has a strong influence on the consumer's behaviour.

The most famous cities are known due to the quality or stories that differentiate them from other cities in the world and motivate people to visit them. City Branding involves identifying a competitive advantage and building a brand by reference to the six elements considered most relevant, according to the method proposed by Simon Anholt. “The City brand hexagon” is built according to the following criteria:

- 1) The presence of the city internationally
 - awareness and familiarity of the city among the population of foreign countries
 - City contribution in terms of culture, science and global governing
- 2) Physical Aspects
 - climate
 - physical aspects of the city; green spaces; architecture
- 3) Pulse
 - degree of urbanisation, lifestyle of the inhabitants
 - opportunities for recreation, entertainment, leisure and fun



4) Premises

- willingness and capacity of accommodation, housing, and their quality level
- hospitals, schools, sports facilities, transport

5) People

- The character and behaviour of residents towards foreigners: warm, open, welcoming and friendly people
- Integration of foreigners taking into account the language and culture of the host region

6) Potential

- Economic Opportunities
- Employment opportunities in the local market
- The opportunity to study in the city.

Figure 1. City brand hexagon

Source: Simon Anholt, The Anholt City Brands Index, 2005, p. 12

Building a city brand is based on an urban identity and image as well as local values. City Branding involves conducting extensive programs strategically developed economically, politically, socially and culturally and it is not limited to logos, slogans and advertising campaigns.

Kavaratzis mentions three different methods by which it can be communicated the image of a city: *primary communication*; *secondary communication*; *tertiary communication*. As for the primary communication, there are undertaken activities classified into four categories: “*landscape strategies*” – there are targeted the urban design and architecture; “*Infrastructure projects*” – there are considered measures to improve the city's infrastructure; “*Organisational and administrative structure*” - concerns the governance structure of the city and its improvement; “*City behaviour*” - includes events and activities organised in the city, the services available to citizens and tourists etc. In making the “secondary communication”, it helps the advertising, public relations, use of the logo and

graphic design. The third way of communication is possible through the “word of mouth” and media communication.

For a long time, cities have organised grand events such as world fairs and sporting events as a means to revitalise their economy, to create the infrastructure and improve their image (Getz, 1991). Recent studies in the tourism market have highlighted the use of a growing number of events as a means of promoting large cities (Law, 1993; Robertson and Guerrier, 1998; Waitt, 1999, 2003; Schuster, 2001). This phenomenon may be related to a general increase in competition between cities for the attention of key stakeholders, including consumers, investors and policymakers. As a result of integration into the global economy, an increasing number of places are attracted to this competitive and at the same time constructive environment, the infrastructure and facilities tend to be similar. Therefore, cities must find new ways to distinguish themselves from their competitors.

In some climates, cultural events, in particular, have emerged as an element to improve the image of cities, giving life to the streets and citizens’ renewed pride in their home town. Large-scale events have become a valued particular cultural value form in terms of their image effects. The cities use increasingly more cultural events to enhance their image, to stimulate urban development and attract visitors and investors. These events aim to attract visitors in a large number and stimulating cultural consumption among residents, as long as the host city is regarded as an ideal tourist destination.

It is obvious that major events can have the effect of shaping the image of a country or of a host community which may be perceived as a potential travel destination (Hall, 1992, p. 14). This potential was a reason for the events to be used as an image tool, especially for large cities (Law, 1993; Holcomb, 1999; Sassen and Roost, 1999; Judd and Fainstein, 1999; Selby, 2003).

1.3. Impact of events’ organisation on the host city

The event is a technique to promote urban culture and identity and its impact increases the visibility of the city nationally and even internationally. In this way, the event becomes a powerful tool in cultural development; it provides the opportunity and also supports the changing city.

The impact of the event on the host city can be measured by identifying the two large categories of effects, *hard effects* and *soft effects* that it produces. The first category of effects, the hard ones, is characterised by measurability and tangibility, they include the development of urban infrastructure, the development of the tourism sector and of the labour market etc. *Soft effects*, intangible and difficult to measure, are represented by the improvement of urban image, forming a festive atmosphere, fostering a sense of pride and confidence relating to the tourist destination and to its residents.

Regarding the impact of the event on the image, the effects consist either in a changed image or in its improvement, which will result in increased interest in tourist destination. Urban image changes are felt physically relating to the



infrastructure and the advertising image, the one promoted through various channels.

Host cities of an event benefit from a presentation in a different manner, which helps them to differentiate themselves from other tourist destinations. In the context of hosting a cultural event, it is made an affiliation between the location and the event that will result in a transfer of the image between the event and the city. Thus, the city will position by culture, the city brand will be distinguished by the cultural dimension.

The brand of a tourist destination is “the sum of all perceptions and associations that people have in relation to that region.” A brand distinguishes itself from the competition through an attribute, a quality, and thus the creation of place brands has the aim to highlight the specific features of a specific city, a specific region or country. Simon Anholt mentions some city brands that were made on a scale related to the history, geography or territory everyday life: Paris signifies love, Milan is style, New York is a symbol of energy, Washington is represented by power, Tokyo is an icon of modernity, Lagos is assigned corruption, Barcelona is culture, Rio is fun. In the context of successively hosting various events and manifestations, the tourist destination may become a brand of festivals.

If city marketing is built around the city selling action and involves measurable and tangible assets such as nature, physical infrastructure, services provided, fees, branding ranks as an important tool to promote the territory. City Branding involves, as noted by Popescu, the addition of an emotional level of the city’s image, as well as the promotion of intangible qualities such as the “soul” or values of the city, as well as the feelings that a person experiences when visiting a particular urban space”.

As not all the products can be brands, not all tourist destinations can be tourist brands. Beside the functional benefits, the brands offer added value to consumers, characterised by non-functionality. A strong brand in consumers' minds will create added value, most times, being manifested as non-functional and emotional form. Popescu lists only four of the added values, which are necessary for a brand to become a success: the experience of people connected to the city; perception: how is perceived the population of the city?; confidence in the city: does the city symbolise anything?; aspect: what is the city like?

Mostly, the branding of tourism destinations is based on experiences of tourists, regardless of the high level of technology in communication. Favourable experiences and pleasant memories that tourists have following the journey will be communicated further. The events organised show attraction because of the atmosphere and surrounding environment, people, organisation and management system, including design and program elements. The charm of these events is due to the fact they are different, and the public has the opportunity to fully enjoy a unique experience.

The conducting of events and various manifestations in a city or region / country will have the effect of attracting a large number of tourists, the increase of the location visibility and its international recognition. By the experience gained in organising events, the municipal administration may sign partnerships involving



international events and their hosting. The city is positioned as a tourist destination organising events.

The city brand builds an image based on the organisation of events combining the two techniques “pull” and “push”. The first one, “pull”, involves attracting international, sporting or cultural events, to be hosted by the city in question, and the “push” technique consists of the sale of local, national or international tourist events. Thus, there is a diversity of events hosted and, ultimately, it is developed the tourism of events, which brings added value to the tourist destination.

The event held is demonstrated to be a valuable promoter of tourism destination in the competitive market. According to Dimanche, events depend on the role of “managers and marketers” in the process of building a tourist destination image and in the branding one.

In tourism, destinations are naturally and spontaneously associated with the events they host. In particular, in the context of experiential tourism consumption, events play an important role in branding, positioning and promotion of tourist destinations.

According to Frederic Dimanche, the events are a marketing tool used to position the tourist destination together with specific products and services (events and portfolio of activities), which can be tailored to meet the needs of the target market. Events evolve from being the cultural expression of a region and become an important marketing tool used in establishing an image and positioning a tourism destination among its competitors.

The events are proved to be effective tools for a destination by their contribution in creating brand equity. Festivals and special events are key tourism marketing tools and have the potential to be extremely effective in the training process of the destination brand equity, for Dimanche being relevant the following:

1) Creating experiences

By their specificity, events have the ability to relate to experiential needs of a market segment. Events can be developed to create excitement and provide a memorable experience, uniquely associated with the host tourist destination. This can be achieved by establishing a match between product, event and specific target markets that will result in optimising the ability to satisfy the visitors. For example, an event such as “Air and Style Contest” in Innsbruck was organised to meet the needs of the target market of young snowboarders and became in a few years a leader in organising the snowboarding events. The product created, the event, met the needs of the target market, provided a unique, dynamic and alternative atmosphere of festival with music, snowboard competitions and parties. The fact that “Air and Style Contest” was held in Innsbruck is not coincidental. Innsbruck is known in Europe as the capital of snowboarding and also has an international reputation as a winter sports destination, image built after hosting several ski contests and the Winter Olympic Games twice.

2) Event as development strategy

An event can be seen as a development strategy of a tourist destination. The purpose of the development strategy is to establish a connection between the brand



image of a tourist destination and the hosted events. More tourism products that have similar images can reinforce each other, so that each benefits from the other. Such a brand development strategy can have the following benefits to a destination: low communication costs through event promotion campaigns, there is also created or reinforced the brand awareness of the destination; destination can exploit the knowledge of the visitors about the brand by adding new features and visitors' information.

3) *Contribution to the building of destination brand awareness*

Events clearly contribute to the raising awareness of the tourist destination. For example, a host city of a mega-event such as the Olympic Games, the World Cup, Super Bowl can expect a high media coverage and to awareness results. Smaller events may not lead to a global awareness, but a cultural festival aimed properly can bring strong regional and national benefits for the associated destination. The event acts as an advertising strategy for the tourist destination and helps create or maintain the awareness of the destination. In addition, events can benefit from public relations, efforts that will generate widespread publicity in the media.

4) *Contribution to perceived quality*

Hosting a mega-successful event is a window to a company and its business. Olympic Games can support the achievement of a country's broad expertise in several sectors and demonstrate that a city can achieve high quality products. Both large and small events in smaller cities contribute to some extent to the perceived quality of the destination. The professionalism of managers and organisers of the event, the superiority of a trade show or festival will reflect on the image of the host city. In France, a small town like Cannes has benefited greatly over the years from the image and associated attributes (luxury, quality) of the International Film Festival. The festival hosting was proved to be successful, helping to position Cannes as the second most loved and wanted French city after Paris.

5) *Contribution to brand associations*

Brand associations can be anything connecting the visitor to the tourist destination. They can include pictures, destination attributes, brand personality or symbols. The destination brand management firstly involves the determination of the appropriate associations, and then their creation and development. For many Europeans, New Orleans is known for its music and Jazz & Heritage Festival, and all Americans associate Mardi Gras celebrations (Carnival) with New Orleans. The reputation enjoyed by New Orleans has been greatly enhanced through these events; the city of New Orleans is a leader in hosting the biggest sporting event in America, the Super Bowl. New Orleans successfully bid several times to draw this great event, and this has led to, in addition to short-term publicity generated every time a lasting reputation as the ideal destination for events, knowing how to entertain the visitors with food, music and parties.

6) *Contribution to brand loyalty*

Destination loyalty is at the heart of the destination brand equity. Loyalty to the destination may be defined as a conscious or unconscious decision of the tourist, expressed through intention or behaviour in revisiting a destination. It appears as visitor perceives the destination having the adequate characteristics, attributes, the



image, the quality at the right price. In tourism, the price paid may include the actual cost, but also the difficulty to reach the destination (travel time and length of stay). In other words, brand loyalty occurs when the destination offers value. The reputation of a tourist destination can be measured in part by the repeated visits of tourists. The events provide an opportunity to create and support the visitors' loyalty towards the tourist destination. Initially, an attractive event will be the reason for visitors to discover a destination, and the experience delivered, the uniqueness of the event will lure them back. Recurring events may determine visitors to return year after year, they must offer diversity from year to year to keep visitors' interest. For example, the Salzburg Festival attracts new and older visitors over the years, with careful changes of the program.

7) *Contribution in positioning a destination*

Positioning involves identifying the perceptions of potential visitors across the key attributes of a destination and its comparing with the perceptions of competing destinations, as well as selecting those that differentiate the destination from its competitors. These characteristics or attributes can be highlighted and they are the foundation of the destination marketing strategy. These attributes can have a huge imprint on the destination (history, culture, physical features) or tourism entrepreneurs can create and enhance new ones. The classification of an event as unique associated with the tourist destination in tourists or intermediaries' mind may become a key attribute used in positioning the destination. An example of an event in the U.S. is Mardi Gras. In addition to its traditional cultural function, Mardi Gras serves positioning New Orleans as the destination of parties, a city where "everything goes". Thus, it enhances some of the existing images and attributes that tourists have about the tourist destination. New Orleans brand is perceived by visitors and travel intermediaries as an urban destination. The development of tourism in New Orleans is supported by developing the area of hospitality, the number of passengers of the airport and the tax revenues in the last decade. The major reason of this growth and of the creation of a strong tourism brand was the staging, over the years, of special cultural events such as Mardi Gras, Jazz & Heritage Festival, major sporting events like the Sugar Bowl and Super Bowl.

2. Study on the impact on the image of a city hosting an event

Tourism destinations have greatly developed after practicing the form of cultural tourism, with cultural heritage as a primary resource, a means of attracting and improving the visitor experience. Moreover, cultural and heritage tourism is used as a tool to stimulate the local economy and has the potential to help spread the seasonal and geographical tourism. Cultural festivals, a category of cultural heritage goods attract viable tourists groups and determine repeated visits among tourists, proving over time to be a development catalyst of the state.

The image of a place is a major factor in attracting tourists so that research on the image of a place is rather used in tourism. Most events have become a particular form of cultural value especially in terms of their image effects on the



venue. This consequence was a reason for events to be used as an image tool, especially in the large cities.

In the research process, the focus is to FIE - the International Festival of Education, 2013 edition held in Iasi and its impact on the image of the host city, candidate for the title of the “European Capital of Culture 2021”. FIE summed events, conferences, exhibitions and festivals, concerts in educational and cultural sphere, events designed to boost the social life of Iasi, the capital of Moldova.

This research was undertaken in order to highlight the effects generated by the hosting of FIE event on the image of the city of Iasi. Thus, it is envisaged to highlight the contribution of hosting FIE in positioning Iasi as a cultural centre, the “European Cultural Capital”.

2.1. Research methodology

In order to obtain data and necessary information, it was decided to use a qualitative research method of documentary study, a primary and nonreactive method. This research method was chosen taking into account the certainty and validity of the information that can be obtained, but also the in-depth and thorough investigation that it involves.

2.2. Interpretation of research results

Praised for historical, cultural, scientific and academic potential, the city of Iasi involved responsibly in national cultural events, but at the same time it initiated local cultural projects to strengthen an identity worthy of European recognition. Among the local events organised, we may mention the “The International Festival of Education” (FIE), editions 2013 and 2014, The “International Festival of Literature and Translation” in 2013, the “National Operas Awards” “UNITER Awards”, the “International Theatre Festival for the Young Audience”. The organisation of these events is actually a beginning of the steps taken by the municipality of Iasi to obtain the title of the ECC for 2021.

Thus, the city of Iasi by launching a cultural program that will be implemented in the context of ECC, can choose one of two development possibilities of the European identity: “the host city is already a powerful cultural brand and through various projects it only emphasises its existing positioning, as did Liverpool, or the cities become cultural brands in the context of ECC, in such a case the cultural event being used as a “tool of the urban identity regeneration”, a method selected by the cities of Rotterdam and Essen.

2.3. Effects generated by hosting FIE

The International Festival of Education broadened the cultural horizon of Iasi and positioned the city amongst the most creative European destinations through the concept of “education, culture and outdoor art”. The educational side of the event was nuanced both by the concept and structure of the event and by the



program and the manner of organisation. As mentioned by the organisers of the event, FIE is the beginning of a recovery action of the educational and cultural potential of Iasi that will support the city to obtain the title of “European Capital of Culture 2021”.

A major event of Iasi, it had a considerable impact on the host, putting the city in the position of facilitating the access to culture. The cultural impact of this festival is accomplished by the interaction of both residents and tourists with different cultural experiences.

The International Festival of Education is by far the largest and most complex cultural event organised by the municipality of Iasi yet. The festival programme was not focused on a single cultural area but included all categories of cultural and artistic forms: music, dance, theatre, books, conferences and motivational lectures, film, plastic arts, attended by national and international guests. FIE 2013 edition amounted to a total of 303 cultural events designed to strengthen the relationship between culture and public. According to statistical information provided by the organisers of the event, the audience of FIE was estimated at 100,267 of direct participants. The number of guests and participating artists was impressive, of 1056 people, and children and young performers in the shows were numbered to 1120.

The cultural impact of the event is highlighted also by the support provided in the professional development of young performers in the country. Fringe Festival brought to Iasi 212 talented young artists, including actors, directors, dancers, choreographers from Romania. The event was attended by 50 independent theatre troupes that performed to the public 75 performances.

The “Kaas chante Piaf” concert was part of the FIE and drew a crowd of 6,000 spectators. At the same time, this concert was a premiere for Iasi, being the first concert of an international artist organised at Iasi.

The festival supported the infrastructure for the city events, involving a large number of locations to achieve the events, indoor and outdoor distributed. A total of 27 locations, including conventional event halls, unconventional event halls and partner locations, were used to organize performances in this cultural program.

The cultural institutions of Iasi received support and promotion by involvement in the organisation and development of this festival. Partnerships with cultural institutions in Iasi were a premiere for an event of Iasi because a large number of cultural workers have expressed their willingness to participate, about 30 entities, including: the Romanian Academy - Iasi Branch, the “Alexandru Ioan Cuza” University, the “George Enescu” University of Arts, the “Gheorghe Asachi” Technical University of Iasi, Iasi County School Inspectorate, the State Philharmonic of Moldova Iasi, the Romanian National Opera of Iasi, Palatul Copiilor (Children's Palace) of Iasi, Iasi Students' Culture House, Luceafarul Theatre of Iasi, etc.

The cultural impact of FIE was a remarkable one by the impressive number of spectators of the festival, but also by the large number of events summed by the FIE agenda. To highlight the size of the festival at Iasi, we conducted a research on cultural events conducted in 2009-2013 in Iasi and the number of participants in



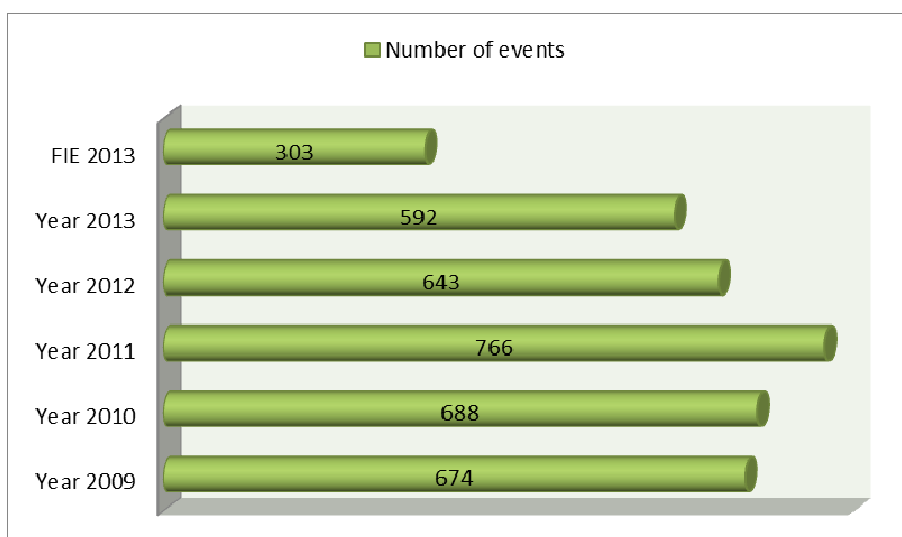
these events. We used the information provided by the National Institute of Statistics, which we have centred in the table below:

Table 1. Statistic indicators on the cultural and artistic activity performed during the period 2009-2013 at Iasi

Ref. no.	Activities	Year 2009	Year 2010	Year 2011	Year 2012	Year 2013	FIE 2013
1	Cultural events	674	688	766	643	592	303
2	Spectators and auditors of the artistic performances	78,155	82,397	79,826	114,371	113,588	100,267

Source: National Institute of Statistics

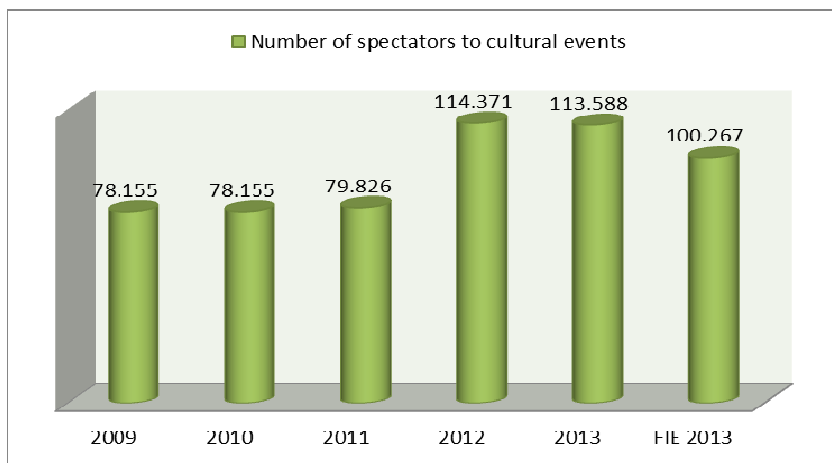
Figure 2. Cultural events at Iasi from 2009 to 2012



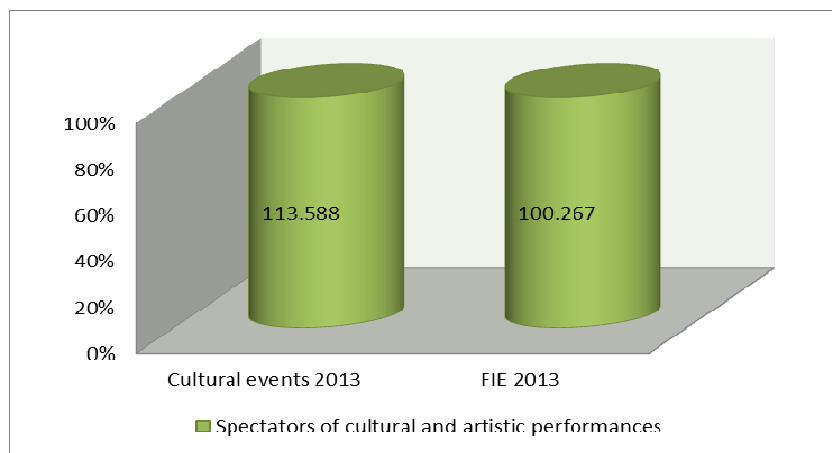
Source: National Institute of Statistics

Figure 2 highlights the scale of the International Festival of Education, the multicultural programme summing an impressive number of events, about 47% of the total number of cultural events organised in Iasi in 2012.

According to the schedule, the International Festival of Education, the 2013 edition, was of a large scale, having an impressive number of participants compared to the total number of spectators of all cultural events in 2012, approximately 90% of the total number of spectators. Also, compared with the previous years, FIE strikes by the public it conquered, FIE audience being larger than the number of spectators who attended the events organised from 2009 to 2011.

Figure 3. Spectators at the cultural events of Iasi from 2009 to 2013

Source: National Institute of Statistics

Figure 4. Spectators of cultural events of Iasi organised in 2013

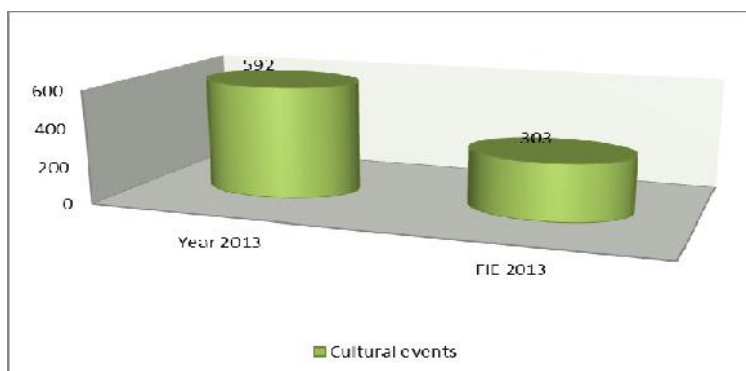
Source: National Institute of Statistics

According to schedule 4, the International Festival of Education, 2013 edition, gathered a large public, about 88.2% of the number of spectators gathered at the other cultural events organised in 2013 in Iasi.

FIE 2013 agenda totalled an impressive number of events compared to the total number of the other cultural events that were held in the city of Iasi, in 2013. The FIE events accounted for about 51.2% of all other cultural and artistic performances taking place in 2013.

In confirmation of the second secondary hypothesis, we used a comparison of the number of participants in the largest cultural events in 2013 hosted in Iasi. Thus, we considered the events of the “Night of Museums” and FILIT, the most representative events of the cultural activity in Iasi.

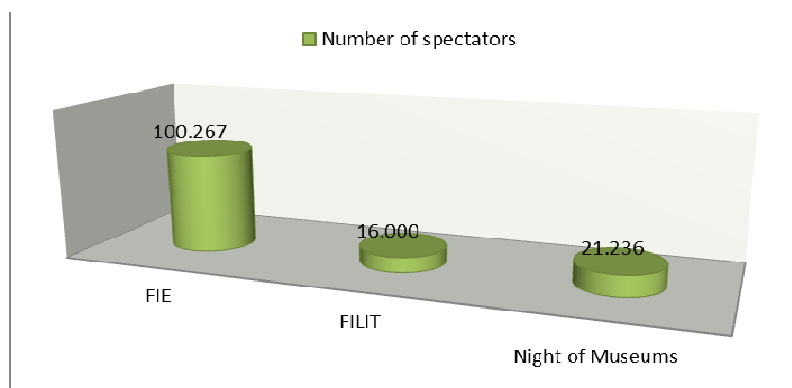


Figure 5. Cultural events in 2013 in Iasi

Source: National Institute of Statistics

In 2013, Iasi was rated on the first places nationally according to the number of visitors, with a great success in terms of culture, the second place in the country after Bucharest, with a total of 21,236 people. (The second place was occupied by Sibiu, with 19,607 visitors, followed by Cluj-Napoca with 15,000 visitors).

Another major event held in Iasi in 2013, was the "International Festival of Literature and Translation ", held in the period 23-27 October 2013. At this festival, there were held 80 events attended by 12,000 people.

Figure 6. The number of spectators at the cultural events organised in Iasi in 2013Source: National Institute of Statistics; www.mediafax.ro

According to the schedule, the International Festival of Education attracted the most numerous audience, and the over 100,000 spectators ranked the event as the largest cultural manifestation held in Iasi in 2013.

The impact of FIE was also relevant from the tourism point of view, because the cultural and artistic manifestation boosted the development of the tourism sector, increasing the number of tourists who chose the city of Iasi as a tourist destination in the month of June of 2013. This effect is highlighted by comparing the number of arrivals of the tourists in the month of June of 2013 with the months of June of the years 2010 – 2012.

Table 2. Arrivals of tourists at Iasi in the month of June of the years 2010-2013

Year	2010	2011	2012	2013
Arrivals of tourists	14,419	14,057	14,772	15,962
Nights spent in structures of tourist accommodation	30,233	29,031	30,401	31,790

Source: National Institute of Statistics

Figure 7. Arrivals of tourists at Iasi in the month of June of the years 2010-2013

Source: National Institute of Statistics

The schedule above highlights a significant increase of the arrivals of tourists in Iasi compared to the previous years, in the month of June of 2013, on the occasion of FIE festival generated positive changes for the tourism of Iasi.

Figure 8. Nights spent in structures of tourist accommodation in the months of June of the years 2010-2013

Source: National Institute of Statistics



The number of nights spent by the tourists in Iasi between 2010 and 2013, in the month of June, varied, and the schedule 6 follows the oscillating evolution. The year 2013 places the indicator at the value of 31,790 nights spent, the largest one of this period. The increase of the number of tourists is very important from the economic point of view, because by the expenditures they make, they increase the tourism revenues, and consequently the tourism sector contribution at the value of the gross domestic product increases.

Conclusions

The event the “European Capital of Culture” has proven over the years, since 1985, the most important tool for urban regeneration through the beneficial effects generated, both economic and social, and especially cultural. The title assigned to a country is the help and support from the European Union in the development process, maybe the single chance to settle the conflicts and of social and cultural inclusion of disadvantaged populations.

In the context of “ECC”, cities such as Rotterdam, Essen and Liverpool were built as a cultural brand, enhancing their cultural dimension by establishing a multicultural programme based on the organisation of events. The image of these cities has improved, moving from the status of industrial or trade city to that of the capital of culture, or from the positioning as a city of sports to that as a city of cultural festivals, remarkable by the impressive number of events aiming at culture through socialisation.

By organising the “International Festival of Education”, Iasi has taken a first step to enrol in the competition for the “European Capital of Culture 2021”. This cultural event was an opportunity for Iasi to remark itself nationally and internationally by diversifying the cultural life and by exploring new horizons.

The “International Festival of Education”, 2013 edition, aimed at strengthening and developing the cultural dimension, and by the events summarized in the programme, there was promoted all forms of culture: music, dance, theatre, books, film and plastic arts. Thus, “FIE” respects the EU principle based on unity and diversity within the cultural context, while promoting cultural diversity and supporting the achievement of unity in diversity. On the occasion of FIE, the citizens of Iasi had the opportunity to attend the first concert of an international artist held in the city of Iasi. “Kaas chante Piaf”, part of the homonymous world tour, gathered a great public and brought a new life to Iasi.

FIE can be considered a representative event of Iasi, it differs from other cultural events organised over time, and its size is demonstrated by numerous diverse events and by the large public. Moreover, the impressive number of artists who have entertained the audience and the rich infrastructure contributes equally to the position of the festival as unique and special.

The “International Festival of Education” has designed a new world of the city, combining the culture and the entertainment and providing to the people education through entertainment. By organising this event, it was made a transition

of Iasi from a city of pure education to a strong cultural, creative and educational European centre.

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