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THE INTERNATIONAL MIGRATION FLOW OF LABOR DURING THE PROCESS OF INTEGRATION OF THE REPUBLIC OF MOLDOVA WITH THE EUROPEAN UNION

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Abstract: *In this article the author debates the international migration flow of labor during the process of Republic of Moldova's integration with the European Union. Therefore, the author presents the economic causes and effects of the international migration of workforce. Both emigration and immigration flows grouped by specific categories of persons are presented. The evolution of the number of Moldovan immigrants and emigrants in the member states is also presented. Furthermore, the article shows statistic data regarding the number of Moldovan citizens aged over 15 that are working abroad or searching for a workplace abroad.*

Keywords: migration; workforce; international migration; emigrant; immigrant
JEL Classification: F15; F16; F22; J61

Introduction

The international labor migration and the problems that it generates is becoming more and more of a concern for international organizations and worldwide governments, especially for the Member States of the European Union. Nowadays we can clearly see the discrepancy between the Member States' right of protecting their inner workforce market and the fundamental rights of individuals that are forced to go abroad in search for a workplace. At the same time, there are states that are officially fighting illegal migration, but are tolerating it informally for several reasons. These reasons include: the need for a cheap or unqualified workforce, the possibility of reducing in a short period of time the number of immigrants through forced repatriation, and so on. This fact only leads to encouraging illegal acts and also to generating many negative consequences for immigrant employees regarding their social security rights, workforce circumstances, representation, and so on.

The migration of labor also represents the element that contributes to cultural and ethnic diversity at a national and organizational level. For EU Member States' citizens, the free circulation of human resources has been represented as one of the first rights to be recognized in the EU. This is being considered as the most important right of the individual in the legislation of the EU and an essential element for the European Union market and European citizenship (Stoica, 2001; Puwak, 2004; Stalker, 2010).

There are increasing debates regarding the effects of international migration of high qualified human resources in the recent years. Thereby, Member States such as Great Britain, Germany and

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France have tried to facilitate the employment of high qualified individuals, especially IT specialists, in order to ensure global competition for them. The demand for high qualified human resources can be satisfied mainly by developing countries. Thus the benefits of “brain migration” are still being highly appreciated. The import of specialists still takes place, even if its significance is reduced. This can also be confirmed by the fact that more and more head hunting businesses appear in less developed countries, in recent years. Their mission is to recruit qualified individuals, especially IT specialists for developing their activity in foreign companies.

Even if the migration of employable populations has positive and negative effects in both the country of origin and the destination country, one can say that the free circulation of the workforce in the EU leads to: developing an European working lifestyle, such as learning one or more EU languages and assimilating different traditions and habits specific to multiple countries (Chirca, 2013). All of the above have a determinant role upon human resources behavior and upon their global and professional value enhancement.

1. Literature review

International workforce migration is determined by a series of causes and has different economic and social effects on society. After studying the phenomenon of international workforce migration from less developed countries to higher developed countries, origin countries started elaborating and bringing in practice different public politics regarding:

- Economic development by attracting investments;
- Regulation of illegal labor migration;
- Social protection for immigrants and their families (Thery, 2011).

International migration of a high qualified workforce is an actual feature of workforce migration known as „brain drain”. Labor migration represents a real loss of intellectual capital for origin countries (Frunzaru, 2009; Popa, 2013).

There are two economic functions of labor migration. The first one ensures a qualitative and quantitative correlation between the workforce offer and demand. The international migration is determined, first of all, by the opportunity of finding a legal or illegal workplace in countries with a higher standard of living. On the other hand, labor emigration reduces the unemployment rate in the origin country. The second function of migration contributes to a better reproduction of the workforce at the Union level (Poalelungi, 2011; Petrescu, 2006). Thus, the immigrants help to build a better demographic image of developed countries which are affected by population gerontology.

In order to analyze the motivational factors that are critical for the migration phenomenon, the International Migration Organization (IMO) proposed the push-pull model. Thereby, the factors that pull are: better living standards, higher wages, other emigrants' experience, a better workplace opportunity, individual freedom, and so on. The most important push factors for origin countries are ethnical problems and economic conditions (Feraru, 2011).

Illegal migration has become more popular and more dangerous. Member States' policies regarding migration and foreigners' employment has become repressive against traficants, illegal employers and immigrants, as a result of the development of international human trafficking network and their increasing role in the international movement of workforce.

Reducing workforce shortages and increasing competition represent favorable effects of international migration for host countries. There are both advantages and disadvantages for origin countries regarding this subject. Advantages relate to: professional and cultural value, higher incomes that are partially repatriated, investments capacity increase, and others. Disadvantages are human capital investment loss, workforce shortage in specific areas and economic stagnation.

2. Analysis of labor migration evolution in the European Union

In the last 10 years societies have recorded an increase of permanent population migration and temporary workforce migration. This happened due to the intensity of EU influence, due to the developing of IT, communications, health and education fields, which require a highly qualified workforce. At the same time, there was an increase of foreign workforce demand, particularly in fields like agriculture, public works construction, and housekeeping services (see Italy, Spain and Greece).

Meanwhile, the countries of Central and Eastern Europe are not only emigration countries anymore; they are immigration and transit countries for East immigrants. Central and Eastern Europe population (Czech Republic, Slovakia, Hungary, Poland, Romania, Bulgaria, and Baltic Countries) migrate towards Western Europe. But they also are a destination for immigrants from countries as Republic of Moldova, Belarus or Ukraine.

In recent years, both legal employees have migrated inside of UE and legal or illegal immigration from outside of the EU has increased in most of the EU countries. The migration of the population, including workforce, can go from less developed countries to the developed ones and the reverse is also true: from developed to less developed. In the first case the motivation for workforce is to find a higher paid workplace. In the second case, we talk about the companies repatriating specialists in the less developed countries, aiming to expand their businesses. *Table 1* presents the number of emigrants for EU, during 2009-2013.

Table 1 - Number and share of emigrants in UE in 2009-2013

Nr.	Countries	2009			2013		
		Total of emigrants, persons	**Number of emigrants, aged 15-64, persons**	**The share of emigrants aged 15-64 in total emigrants, %**	**Total of emigrants, persons**	**Number of emigrants, aged 15-64, persons**	**The share of emigrants aged 15-64 in total emigrants, %**
1.	**UE – 28**	**2 379 997**	**2 011 966**	**...**	**2 814 325**	**2 389 139**	**...**
2.	Austria	53 244	44 902	84,3	54 071	44 733	82,7
3.	Belgium	:	:	...	90 800	72 901	80,3
4.	Bulgaria	:	:	...	19 678	16 888	85,8
5.	Czech Republic	61 782	58 340	94,4	25 894	23 067	89,1
6.	Cyprus	9 829	9 472	96,4	25 227	22 427	88,9
7.	Croatia	:	:	...	15 262	11 723	76,8
8.	Denmark	39 899	34 550	86,6	43 310	37 662	87,0
9.	Estonia	4 658	3 866	83,0	6 740	5 148	76,4
10.	Finland	12 151	10 072	82,9	13 893	11 391	82,0
11.	France	264 631	225 728	85,3	300 760	254 740	84,7
12.	Germany	286 582	232 204	81,0	259 328	213 012	82,1
13.	Greece	:	:	...	117 094	104 619	89,3
14.	Ireland	69 672	66 157	94,6	83 791	75 820	90,5
15.	Italy	80 597	64 274	79,7	125 735	98 021	78,0
16.	Latvia	38 208	:	...	22 561	18 921	83,9
17.	Lithuania	38 500	33 270	86,4	38 818	33 174	85,5
18.	Luxembourg	9 168	7 277	79,4	10 750	8 463	78,7
19.	Malta	3 868	3 411	88,2	5 204	4 729	90,9
20.	Great Britain	368 177	340 929	92,6	316 934	297 129	93,8
21.	Holland	92 825	76 459	82,4	112 625	93 015	82,6
22.	Poland	229 320	190 602	83,1	276 446	225 339	81,5
23.	Portugal	16 899	13 924	82,4	53 786	49 698	92,4
24.	Romania	246 626	213 211	86,4	161 755	135 566	83,8
25.	Slovakia	4 753	4 267	90,0	2 770	2 231	80,5
26.	Slovenia	18 788	17 089	90,9	13 384	11 049	82,6
27.	Spain	380 121	321 117	84,5	532 303	445 014	83,6
28.	Sweden	39 240	31 628	80,6	50 715	39 774	78,4
29.	Hungary	10 483	9 217	87,9	34 691	32 885	94,8

Source: Elaborated by the author based on EU statistics

Table 1 shows that the number of emigrants is different for the various countries, depending upon their size and level of development. The reason why the author puts emphasis on 15-64 aged people is because they represent a potential workforce for employers from different EU countries.

Also *Table 1* reveals that, in 2009, the share of 15-64 aged emigrants in total of emigrants varies from 79.4% in Luxembourg, to 79.7% in Italy, 95.0% in Ireland, reaching 96.4% in Cyprus. Also, in 2013, compared to 2009 the share of 15-64 aged emigrants in the total of emigrants varies from 76,4 in Estonia, to 76.8% in Croatia, 93.8 in Great Britain, and reaches 94.8% in Hungary. Also, while some countries such as Cyprus, Czech Republic, Ireland, Slovakia, Slovenia, Romania and others record a decrease of 15-64 years aged emigrants' share in 2013 compared to 2009, other countries (Portugal, Hungary, Great Britain) show an increase of the mentioned above share.

The share of 15-64 years aged emigrants has significantly increased from 2009 to 2013 in countries such as Hungary, France, Spain, Portugal, and so on. Also there was a significant decrease in the number of emigrants aged 15-64 in countries such as Romania, Slovenia, and Czech Republic. Therefore, the 2008 crisis affected the whole European space, leading to the increase in the number of emigrants aged 15-64 for some countries, and its' decrease in other countries. The population of the countries that recorded an increase emigrated in more developed countries of the EU hoping to find a workplace. The population of the countries that recorded a considerable decrease was determined to stay in the country due to the reluctance regarding a better opportunity in another country. It is of high interest to study the number of immigrants for the same period of time (2009-2013) in *Table 2*.

Table 2 - Number and share of immigrants in the UE in 2009-2013

Nr.	Countries	2009			2013		
		Total of immigrants, persons	Number of extra EU immigrants, persons	The share of extra UE immigrants in total immigrants, %	Total immigrants, persons	Number of extra UE immigrants, persons	The share of extra UE immigrants in total immigrants, %
1.	**UE – 28**	**3 023 656**	**1 360 422**	**...**	**3 273 898**	**1 683 213**	**...**
2.	Austria	69.295	24.068	34,7	101 866	34 354	33,7
3.	Belgium	:	:	...	118 256	42 652	36,1
4.	Bulgaria	:	:	...	18 570	14 328	77,2
5.	Czech Republic	75.620	38.374	50,7	30 124	14 174	47,1
6.	Cyprus	11.675	:	...	13 149	6 067	46,1
7.	Croatia	:	:	...	10 378	7 603	73,3
8.	Denmark	51.800	16.287	31,4	60 312	29 611	49,1
9.	Estonia	3.884	1.186	30,5	4 109	2 144	52,2
10.	Finland	26.699	11.331	42,4	31 941	15 420	48,3
11.	France	296.970	113.759	38,3	332 640	196 556	59,1
12.	Germany	346.216	140.332	40,5	692 713	283 575	40,9
13.	Greece	:	:	...	57 946	20 764	35,8
14.	Ireland	50.604	8.847	17,5	59 294	28 725	48,4
15.	Italy	442.940	270.592	61,1	307 454	215 495	70,1
16.	Latvia	3.731	:	...	8 299	3 505	42,2
17.	Lithuania	6.487	1.405	21,7	22 011	5 797	26,3
18.	Luxembourg	15.751	2.667	16,9	21 098	1 849	8,8
19.	Malta	6.161	2.680	43,5	8 428	4 180	49,6
20.	Great Britain	566.514	303.120	53,5	526 046	30 6377	58,2
21.	Holland	122.917	32.921	26,8	129 428	58 336	45,1
22.	Poland	189.166	34.147	18,1	220 311	78 269	35,5
23.	Portugal	32.307	10.303	31,9	17 554	7 579	43,2
24.	Romania	135.844	6.040	4,4	153 646	24 936	16,2
25.	Slovakia	15.643	7.568	48,4	5 149	1 062	20,6
26.	Slovenia	30.296	25.490	84,1	13 871	9 270	66,8
27.	Spain	392.962	241.352	61,4	280 772	178 523	63,6
28.	Sweden	102.280	56.615	55,3	115 845	76 989	66,4
29.	Hungary	27.894	11.338	40,6	38 968	15 073	38,7

Source: Elaborated by the author based on EU statistics

We notice from *Table 2* that most developed EU countries registered an increase in the number of immigrants in 2013 compared to 2009, with the exception of Great Britain and Italy. It should be mentioned that Germany saw the greatest increase in the number of immigrants during this period, with the number in 2009 doubling in 2013. The labor migration does not take place only between EU member countries, in fact most immigrants come from countries outside of this EU. In 2013 the largest shares of extra-EU immigrants were recorded in Bulgaria – 77.2%, Croatia – 73.3%, Italy – 70.1%, Slovenia – 66.8%, Sweden – 66.4%, Spain – 63.6%, and Great Britain – 58.2%. This is due to the perceptions that they are more attractive countries or easier to reach illegally. Luxembourg has registered only 8.8% of extra-EU immigrants, Romania – 16.2%, Slovakia – 20.6% and Lithuania – 26.3%. In 2013 we also find an increase in immigration to Poland and Ireland, compared to 2009.

3. Analysis of the autochthonous labor migration in EU countries

We cannot say that the Republic of Moldova is not a part of the European context at present. On the contrary, a large portion of the employable population of Moldova has crossed the national border a long time ago in order to find opportunities for higher salaries abroad. This has allowed this generation to adapt to different European cultural backgrounds, which is characterized by more diverse cultures. This reality is also confirmed by the EU statistics. *Table 3* will show the immigrants' and emigrants' flow of Moldavians between the ages of 15 to 64 to EU Member States.

Though not all EU Member States have statistical data concerning the evolution of Moldovan immigrants or their number is very small, nevertheless we can observe Moldavians' tendencies and preferences regarding the migration toward European countries. Considering the period analyzed in *Table 3*, EU countries registered the highest number of Moldovan immigrants in 2010, after which there was a decrease in the immigration of citizens from the Republic of Moldova towards EU countries.

Due to the similarity between those two cultures, the possibility to quickly learning the Italian language and the unproblematic method of obtaining residence permit, Italy is being considered the most attractive country for Moldovans. In 2010, Italy recorded 23 523 Moldovan immigrants. In 2013 this number has decreased to 1424. This happened due to the fact that Moldovans felt the effects of the 2009 crisis only in the following years, fact which can be reflected in the decrease of Moldovan immigrants' number in the EU. Also, something to be mentioned is the fact that Romania became very attractive for the autochthonous workforce (the number of Moldovan immigrants reached 18913 in 2013). It is assumed that Romania will become even more attractive for the Moldovan workforce due to fact that the two countries share the same cultural and linguistic space.

However, in 2013, 157 145 persons were in Italy, 59 670 persons – in Romania, 16 986 – in Spain and 6285 – in Czech Republic. This number has decreased for other European countries (16).

Also, the number of Moldovan emigrants from the EU is very low compared to the number of immigrants. The reason why Moldovans are determined to continue their activities in the EU is because the Republic of Moldova has not recorded sufficient economic progress in the recent period (it actually even displayed an economical regression).

Table 3 - Evolution of the number of Moldovan immigrants and emigrants between the ages of 15 to 64 to EU member states, during the period 2009 – 2013 (persons)

Nr.	EU countries	Immigrants					Emigrants				
		2009	**2010**	**2011**	**2012**	**2013**	**2009**	**2010**	**2011**	**2012**	**2013**
1.	**UE - 28**	21061	28820	25894	10725	22215	1588	2032	1405	1524	1593
2.	Austria	114	:	73	80	:	138	:	74	26	:
3.	Belgium	:	153	216	156	52	:	29	:	43	7
4.	Bulgaria	:	:	:	125	335	:	:	:	185	124
5.	Czech Republic	2 312	275	131	187	401	:	:	:	:	:
6.	Cyprus	:	:	:	:	:	:	:	:	:	:
7.	Croatia	:	:	6	10	9	:	:	:	2	4
8.	Denmark	38	25	48	36	56	29	25	:	13	28
9.	Estonia	10	4	11	8	17	2	1	:	:	:
10.	Finland	10	11	9	11	18	2	1	:	2	1
11.	France	:	:	:	:	:	:	:	:	:	:
12.	Germany	:	:	:	:	:	:	:	:	:	:
13.	Greece	:	:	:	:	:	:	:	:	:	
14.	Ireland	36	44	44	62	167	190	186	223	220	:
15.	Italy	14 048	23 523	12 495	7 200	1424	419	719	:	986	407
16.	Lithonia	:	:	:	:	:	:	:	:	:	:
17.	Lithuania	43	16	11	14	51	189	88	40	57	62
18.	Luxembourg	9	8	6	7	40	3	4	:	3	13
19.	Malta	:	:	:	:	:	:	:	:	:	:
20.	Great Britain	:	:	:	:	:	:	:	:	:	:
21.	Netherland	52	44	43	49	37	23	24	21	25	:
22.	Poland	:	:	:	:	:	:	:	:	:	:
23.	Portugal	:	:	:	:	:	:	:	:	:	:
24.	Romania	3 162	3 704	1 944	1 841	18 913	94	120	166	120	:
25.	Slovakia	21	10	1	:	:	13	13	:	1	:
26.	Slovenia	74	42	22	24	23	40	30	:	16	23
27.	Spain	1 026	874	877	815	533	1 026	874	877	815	908
28.	Sweden	52	35	23	41	83	2	12	:	4	9
29.	Hungary	54	52	34	59	46	15	8	4	6	14

Source: Elaborated by the author on the basis of EU statistics

Also, something to be mentioned is that most of the time, a large share of the autochthonous labor emigrates illegally. This is the reason why the EU Member States' statistics are not sufficient for the accurate recording of the autochthonous labor emigration flow tendencies. According to a

Labor Force Survey, realized by the National Bureau of Statistics, the number of Moldovans to be registered as living abroad is much larger and is referred to both EU countries and the countries outside of it. In *Table 4* the top 9 countries where Moldovans are developing their professional activity are presented.

Table 4 - Population of the Republic of Moldova aged over 15 working abroad or in search for a workplace abroad during 2009-2014 (thousands of persons)

Nr.	Countries	2009	2010	2011	2012	2013	2014
1.	**Total**	**294,7**	**311,0**	**316,7**	**328,1**	**332,2**	**341,9**
2.	Greece	3,2	2,6	2,4	2,1	1,5	2,0
3.	Israel	8,4	8,2	6,5	7,9	7,1	8,4
4.	Italy	54,7	57,5	58,3	54,4	50,7	49,6
5.	Portugal	6,3	5,1	4,4	3,3	3,9	2,0
6.	Romania	2,3	2,2	2,4	2,9	3,5	3,8
7.	Russian Federation	177,1	191,8	204,7	223,3	223,4	232,8
8.	Turkey	8,4	9,1	7,3	5,8	7,6	7,5
9.	Ukraine	8,6	6,6	5,1	3,9	5,4	4,4
10.	Other countries	25,5	27,0	25,5	24,1	29,0	31,4

Source: Elaborated by the author, based on NBS dates

The data presented in *Table 4* prove that a large share of the Moldovan workforce is living abroad in search of work or working legally or illegally. The biggest share of people aged 15 years and older is found in the Russian labor market. In 2009, the Russian Federation hosted 60.9% of the total emigrants aged 15 and over, in 2014 this share reached 68.1%. This can be explained by the easy access to Russian Federation, knowledge of the Russian language, which allows a faster integration of Moldovan citizens in the Russian labor market. For the most part, the economic crisis in 2008 led to a higher unemployment rate in EU countries. This forced the Moldovan workforce to reorient itself away from the EU space towards the Russian Federation.

Beginning with April 28, 2014, since the liberalization of the visa system and due also to integration citizens in the market to the profound economic crisis in the Russian Federation, it is possible to record a reorientation of the autochthonous workforce towards the EU, which offers better working conditions and a higher assurance and security for citizens.

4. Analysis of the evolution immigrants in Republic of Moldova

Even if labor emigration is significantly higher than foreign citizens immigrating for work in the Republic of Moldova, we can still record an increase in immigration (*Table 5).*

Analyzing the dates from *Table 5*, one can see that the number of immigrants legally developing professional activities in the Republic of Moldova had grown twice as much from 2008 to 2014. And so the numbers are: 1136 persons for 2009 and 2327 persons for 2014. In 2009 there is a significant decrease in the number of immigrants due to the 2008 crisis that affected the Republic of Moldova. In 2014 the legal immigrants in the Republic of Moldova came mostly from countries like: Romania - 30, 45%, Turkey - 18, 61%, Italy - 9, 8% and Ukraine - 7, 35%. Also there is a growing tendency for a number of immigrants willing to develop a professional activity in the Republic of Moldova from countries like: India, Iraq, Syria, and Lebanon.

Table 5 - Number of immigrants having the right to work in the Republic of Moldova during 2008-2014

Nr.	Country	2008		2009		2013		2014	
		Number	%	Number	%	Number	%	Number	%
1.	**Total**	**1136**	**100**	**590**	**100**	**1892**	**100**	**2327**	**100**
2.	Azerbaijan	29	2,55	8	1,35	28	1,48	35	1,48
3.	Belarus	9	0,79	5	0,85	32	1,69	34	1,46
4.	Bulgaria	10	0,88	12	2,03	22	1,16	29	1,25
5.	China	11	0,97	3	0,51	36	1,9	39	1,68
6.	France	17	1,50	13	2,20	25	1,32	28	1,20
7.	Georgia	9	0,79	8	1,35	22	1,16	17	0,73
8.	Germany	34	2,99	16	2,71	25	1,32	21	0,90
9.	Greece	10	0,88	2	0,33	23	1,22	20	0,86
11.	India	7	0,61	1	0,17	11	0,58	25	1,07
12.	Iraq	2	0,17	1	0,17	46	2,43	48	2,06
13.	Israel	16	1,41	9	1,52	20	1,06	19	0,82
14.	Italy	74	6,51	65	11,01	164	8,67	228	9,80
15.	Lebanon	2	0,17	-	-	12	0,63	11	0,47
16.	Great Britain	11	0,97	5	0,85	15	0,79	11	0,47
17.	Holland	6	0,52	5	0,85	9	0,48	10	0,43
18.	Poland	12	1,05	13	2,20	16	0,85	12	0,52
19.	Romania	244	21,48	72	12,20	423	22,36	708	30,43
20.	Russia	40	3,52	39	6,61	90	4,76	88	3,48
21.	Syria	3	0,26	2	0,33	24	1,27	17	0,73
22.	Spain	3	0,26	5	0,85	12	0,63	7	0,30
23.	USA	37	3,25	30	5,08	8	0,42	12	0,52
24.	Turkey	339	29,84	109	18,47	462	24,43	433	18,61
25.	Ukraine	101	8,89	59	10,0	126	6,66	171	7,35
26.	Other countries	110	9,68	108	18,3	241	12,73	304	13,06

Source: Elaborated by the author, based on NBS and ANOFM data

As the Republic of Moldova gets closer to the EU, the number of immigrants willing to develop a professional activity in the Republic of Moldova might continue to grow. More than that, due to the increase of autochthonous workforce emigration, immigrants from the East might become a source to satisfy the labor demand in the Republic of Moldova. This will lead to the fact that the human resources managers and specialists from autochthonous organizations will have to get accustomed to the cultural particularities of this specific workforce. Thus HR specialists can build staff policies so as to avoid conflicts between different ethnical or cultural groups.

Conclusions

International labor migration is not limited to the borders of the EU, and as a rule takes place from the less developed countries to the highly developed ones. In recent years, the EU represents a geographical area that has attracted the highest number of emigrants worldwide, including emigrants from the Middle East and Northern Africa. In 2013, most of the emigrants aged 16-64 were located in Great Britain, France, Germany and Poland.

For the past 15 years, the Republic of Moldova has become a country that exports workforce. The autochthonous workforce has been looking for a workplace both in the EU and countries from the East, particularly the Russian Federation. The high number of Moldovan labor that immigrated temporarily to the Russian Federation is explained by the higher number of opportunities to access the labor market and by the quicker adaptation of Moldovans to the cultural environment in this country.

The low level of autochthonous labor migrating towards the EU is due to:

- the difficulty of entering legally to the EU;
- the lack of collaboration between the Republic of Moldova and the EU Members States regarding the employment of the workforce for a specific period of the time;
- the restrictions on access to the labor market of these countries for citizens outside the EU;
- the lack of foreign language-knowledge. Knowing a foreign language would have made access to the EU labor market and adaptation to the cultural environment much easier.

In recent years, the Republic of Moldova represents a destination country for an increasingly number of immigrants. The number of immigrants that obtained the right to work in the Republic of Moldova has grown from 1 136 persons in 2008 to 2 327 persons in 2013. As the Republic of Moldova gets closer to the EU and its citizens gain the right to circulate freely in the EU Member States, the number of immigrants from the Republic of Moldova will continue to grow.

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THE ROLE OF PUBLIC DISCOURSE IN THREAT FRAMING: THE CASE OF ISLAMOPHOBIA IN CZECH REPUBLIC

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Abstract: *Perception and interpretation of risks do not always come from a direct experience but are filtered by the mass media and political discourse. The message they spread and the interpretations of reality they suggest have a profound impact on the (mis)perceptions developed by citizens. Currently all over the European Union the Islamic threat, as linked to terrorism, is conceived and perceived as a fundamental threat to security. But is there a real threat? By means of a discursive analysis, this paper aims at exploring the dynamics of threat construction as related to the framing of Islam as an issue of security concern, by focusing on the role of public discourse and by providing some insights from Czech Republic (CZ). Czech Republic is an interesting case to study misperceptions, insecurity complexes and the manipulation of public discourse, as the percentage of Muslim population in the country is tantamount to zero but Islamophobic feelings are gathering momentum and rising consistently. The fundamental question driving the research aims at explaining why a country with a numerically negligible Muslim minority is experiencing growing public hostility, manifested through the raising mobilization of citizens against Islam. The hypothesis suggests that the exposure of public opinion to specific media representations and political rhetoric may induce misperception and the development of Islamophobic sentiments. The paper will firstly go through an overview of the literature on the topic; it will then analyze the general trends in Islamophobic discourse in CZ, through the lens of the securitization theory.*

Keywords: security; threat construction; Muslims; political discourse; islamophobia

Introduction

Growing public hostility and Islamophobic sentiments are spreading in the European continent. Following recent events, such as the attack to Charlie Hebdo, the shootings in Belgium and Denmark, we are witnessing a revival of societal tensions in many member states, manifested by the organization of public protests against Islam and Muslim minorities.

Overall, since the 9/11 terrorist attacks, xenophobe and right-wing movements have gained renewed attention by the public opinion, as they inflate threats and consequently exploit and articulate people's irrational fears towards Muslims. With the outbreak of the financial crisis then, these movements have continued to thrive, since security is always a prime argument to be used for propaganda and gaining support, in a time of pessimism and uncertainty. By depicting apocalyptic scenarios of an imminent clash of civilizations and an Islamized European continent, Islamophobes elude rational arguments and stick to widespread cliché, incite to intolerance and foment hatred.

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Public discourse, as incarnated by media and politicians, is of paramount importance when it comes to address security issues. Perception and interpretation of risks, in fact, do not always come from a direct experience but are filtered by the mass media and political discourse. In the last decade, Islam has clearly been framed as a security threat. Since securitization is by definition a matter of language, what has been the role played by such two actors? I will try to address this question by focusing on the empirical case of Czech Republic, which seems to be an interesting case to study misperceptions, insecurity complexes and the manipulation of public discourse, as the percentage of Muslim population in the country is tantamount to zero but Islamophobic feelings are gathering momentum and rising consistently.

There are no shared and unanimous data accounting for the precise determination of the Muslim population in such country. Vladimír Sáňka, representative of the Center of Muslim Religious Communities and director of the Islamic Centre in Prague, estimates the whole number of Muslims in the Czech Republic at 10000 persons, but as he stressed no way how to verify this number is available (Ostřanský, 2010). The U.S. Department of State (2013) also suggests a similar estimate. However, in a country where the total population is estimated at more than 10 million, one would easily convene that such a minority is by all means negligible, or, as it has been called by Martina Krizkova, invisible (Krizkova in Ostřanský, 2010). Nevertheless, Czechs have shown no exception in conforming themselves to the general trends of Islamophobia currently in act in western societies.

The fundamental question driving the research aims at explaining why a country with a numerically negligible Muslim minority is experiencing growing public hostility, manifested through the raising mobilization of citizens against Islam. By means of a discursive analysis, this paper aims at exploring the dynamics of threat construction as related to the framing of Islam as an issue of security concern, by focusing on the role of public discourse and by providing some insights from Czech Republic (CZ). The paper will firstly go through the definition of concepts and an overview of the literature on the topic; it will then analyze the general trends in Islamophobic discourse in CZ, through the lens of the securitization theory.

1. First Part

Definition of Concepts and Literature Overview

In the international relations literature, a threat is defined as a situation in which one agent or group has either the capability or intention to inflict a negative consequence on another agent or group (Davis, 2000 in Rousseau and Garcia-Retamero, 2007, p. 745).

Realists (e.g., Waltz, 1979; Grieco, 1988) explain threats as functions of power asymmetries. When power among the groups is unevenly distributed, the argument runs, both parties in the asymmetric relationship may have cause for alarm, especially the weaker side, as it may fear exploitation. The stronger side is not exempted by fear either: while the weaker side experiences a short-run fear, due to its position of inferiority, the stronger counterpart fears an inevitable shift in the balance of power in the long run and a challenge to the status quo (Rousseau and Garcia-Retamero, 2007). Proponents of realism in international relations thus predict that asymmetries in power will automatically trigger perceptions of threat and intergroup conflict.

Social identity theory (Tajfel and Turner, 1979 in Rousseau and Garcia-Retamero, 2007), instead, explains the origin and perception of threat as a consequence of self-categorization and thus emphasizes the role played by identity construction. As this theory puts it, individuals automatically place themselves into social categories; such placement immediately creates an "other" and overall the categorization process will lead to the emergence of prejudicial attitudes toward the out-group and a feeling of threatening.

Interestingly, Rousseau and Garcia-Retamero (2007) have proved the fundamental role played by *both* approaches. According to the model developed by these two scholars, it is the interaction between power *and* sense of identity that influences threat perceptions. When the other is completely different from the self, the balance of power between them will be a good predictor of threat perception. On the other hand, the higher the sense of shared identity, the greater the feeling of attachment to the "other" and eventually the less threatening both the ingroup and the outgroup will feel.

Perception of security/insecurity plays thus a prominent role. But when is a threat actually threatening? What is it that turns a phenomenon into a collective risk for societies and states? How does the transformation from a social matter to a political and security issue occur? According to the securitization theory, a phenomenon is a threat to security when it is framed as such; or as Wæver (2004, p. 13) puts it, "It is by labelling something a security issue that it becomes one". To present an issue as an existential threat is to say that: "If we do not tackle this problem, everything else will be irrelevant (because we will not be here or will not be free to deal with it in our own way)" (Buzan *et al.* 1998, p. 24). When the securitizing actors adopt the rhetoric of security to convince the audience of the existential nature of the threat, we have what has been defined a securitizing move. It is only when the audience accepts it that we can talk of a successful securitization. In other words, the issue of securitization is one of language and the perception of security is a matter of social construction. The securitization of an issue is then strictly related to the political agenda. Once an issue has gained the status of security threat, it automatically enters the policy agenda, as collective concerns legitimize the endorsement of state actions. The dynamics of threat construction by decision-makers have also great implications on the security context. In fact, according priority to an issue rather than to another eventually results in changes of policies and approaches, redistribution of resources and a downgrading of other issues on the political agenda.

We can also think at securitization as a particular form of framing which relies on a shared perception of risk. To frame, in fact, "is to select some aspects of a perceived reality and make them more salient in a communicating text, in such a way as to promote a particular problem definition, causal interpretation, moral evaluation, and/or treatment recommendation for the item described" (Entman, 1993, p. 52).

Nonetheless, perception and interpretation of risks do not always come from a direct experience but are filtered by the mass media and political discourse. The message they spread and the interpretations of reality they suggest have a profound impact on the (mis)perceptions developed by citizens. The media have been described as a "major power broker", which exerts unprecedented power over the dissemination of news (West, 2001 in Conway, 2008). It is for such reason that both media and politics are strictly linked to securitization processes, as they represent key-actors in presenting and articulating the security threats to the public. They represent the lens through which the vast majority of public opinion sees an issue of public concern. Cohen's assertion is to this regard timeless: "The world looks different to different people, depending not only on their personal interests but also on the map that is drawn for them by the writers, editors and publishers of the papers they read" (1963, p. 13).

Understanding and assessing the contribution of media and political actors to the construction of a threat is no easy task, due to the complex processes involved. Nonetheless it is possible to affirm that political communication shapes both the information available and the way individuals use it to conceptualize reality and that public discourse has been highly successful in speaking the alleged Islamic threat into existence. If one would like to discuss the reasons why securitization occurs, overall it seems that political actors benefit from the politics of insecurity. By creating a climate of insecurity, they may enhance the chance to see a specific problem entering the policy agenda or even directly climbing at the top of it. Such chances seem higher when the threat infrastructure is more episodic than structural, and it is capable of drawing great and obsessive attention from the public (Béland, 2007). The first and main consequence of depicting an issue of public concern as a fundamental threat to the survival of the state or of its culture and values is the gain of public consent to use extraordinary measures to combat that threat. Moreover, being the state the one and only legitimate provider of protection, by providing what the public opinion trusts to be adequate policy responses to the issue under discussion, politicians may boost their support and eventually succeed in their ultimate goal, that is to say, seeking re-election.

Through a securitization process, Islam has reached a paramount level of salience in the public debate, along with the two most controversial issues associated with it, that is to say terrorism and migration. Islam is framed as a double threat. It is first of all depicted as an extremist ideology promoting violence, representing the ideological ground for terroristic acts. Furthermore, it is described as an all-encompassing, intolerant and totalizing religion, ruling every aspect of private, social and political life; as a consequent of this universalistic tendency, the arguments runs, Europe should protect itself from Muslim migration if it does not want to surrender to an Islamization of its society.

Through a closer look at media and political discourse, one may convene that the distinguishing features of the rhetoric used by public discourse are the dynamics us/them, a negativization process and the clash argument. The dynamic of group differentiation is achieved through the negative representation of Muslims and Islam; such circumstance eventually enhances the identity of the majority group, as it encourages a positive conception of its membership. The rhetorical strategy therefore used is based on two steps: firstly, through a process of hyper simplification, Muslims are depicted as a homogenous entity; secondly, rigid and impermeable boundaries are constructed between the majority and minority groups. As Jaspal and Cinnirella (2010) noted in their study on media representation of British Muslims, the constant use of the expression “the Muslim world” by media and newspapers is a clear exemplification of such dynamic. Islam and Muslim are first of all grouped into one single concept, which is then presented in antithesis with “the West”. In such a way, a sense of group differentiation is established and maintained.

Muslims tend also to be discussed extensively in term of negative representations: some traits which are specific to the Islamic culture are over-emphasized in a negative fashion, producing a confrontation of values between the majority and minority groups and a final rejection. An example of this dynamic is the focus on the Islamic veil, which has been represented as a symbol of a patriarchal and oppressive Islam, depriving women of their freedom.

This process of negativization leads then to the clash of civilizations argument. The us/them dynamic, in fact, not only produces group polarization but also envisages an inevitable clash of civilization, since Muslims are trying to destroy “us”, both in realistic and symbolic terms: because of their support to terrorism, Muslims pose a real threat to the very existence of Western states; in addition, their extremism and universalistic tendency to Islamize Europe constitutes a symbolic threat to the Western system of values.

One final theoretical discussion should concern the term Islamophobia. The use of such term remains a highly contested issue, as many tend to criticize its general definition and widespread use. Since social science has not developed a common definition, policies and actions to combat it are undertaken within the wider and universally recognized term "racism" (EUMC, 2006). One of the first attempts to contribute to the specification of the concept came from the Runnymede Trust. In its 1997 report, this UK-based NGO analyzed in a comprehensive way how Islam is seen by Islamophobes, that is to say as a static bloc, unresponsive to change; a political ideology, used for political or military purposes; a barbaric, primitive, violent and sexist religion, supportive of terrorism and engaged in a clash of civilizations (Runnymede Trust, 1997).

In 2000 the Council of Europe's European Commission against Racism and Intolerance (ECRI, 2000) produced the General Policy Recommendation No.5 on combating intolerance and discrimination against Muslims, acknowledging that Muslim communities are subject to prejudice, which "may manifest itself in different guises, in particular through negative general attitudes but also to varying degrees, through discriminatory acts and through violence and harassment", thus leading the way for a more precise account of the term. In 2005 another Council of Europe publication 'Islamophobia and its consequences on Young People' referred to Islamophobia as "the fear of or prejudiced viewpoint towards Islam, Muslims and matters pertaining to them. Whether it takes the shape of daily forms of racism and discrimination or more violent forms, Islamophobia is a violation of human rights and a threat to social cohesion". (Ramberg, 2005, p. 6)

It seems to me that, when referring to the issue of societal tensions in Europe as they are currently occurring and in order to better understand reality and address it, a further specification is needed. Islamophobia in Europe should not be intended simply as any manifestation of hostility, resistance, fear and occasionally violence towards people professing the Islamic religion, as a particular attention should be devoted to the Middle East and North Africa region. Arab people in fact represent the main target of such manifestation of hostility; therefore I believe that a geographical connotation should be taken into account when discussing Islamophobia in our continent, as it opens up a broad set of new perspectives that allow us to also discuss misinformation and its relations with the raising of Islamophobia.

2. Second Part

Raising Islamophobia in Czech Republic

As mentioned earlier, in the 9/11 aftermath the idea of the clash of civilization with Islam has reinforced its grasp on the Western public opinions. Therefore it can be argued that the events of 9/11 have in a certain sense legitimized the strength of skeptical visions. In Europe, the media and political discourse have been increasingly radicalized, especially after the Madrid and London bombings, and revitalized after the Charlie Hebdo attack. By functioning as an catalyst of group polarization, the economic crisis has further worsen the situation and favored growing intolerance, as the public opinion is much more vulnerable to the populist rhetoric, which consequently grasps and exploits this occasion for increasing overall influence. Be it about the construction of mosques or the possibility to wear the veil in public spaces, many Europeans have demonstrated their intolerance towards the people professing the Islamic religion and an irrational and indiscriminate fear against them.

Czech Republic has historically barely any experience with Islam, compared to other European countries; social and ethnic tensions began to increase only with the increase in immigration from Arab countries. Initially dominated by a border-closure policy throughout the communist regime, Czech Republic started to be exposed to cultural and religious diversity during the 1990s, when Muslims from the Balkans and the Caucasus region settled in the country. Nonetheless, these new immigrants were regarded as similar in terms of ethnicity and public debate was not particularly heated. Islamophobia is thus a relatively new phenomenon, mainly born in association with Arab Muslim immigrants in the aftermath of 9/11 and the spread of the terrorist threat in the EU.

Overall Czech Republic already has a significant history of cultural polarization and discrimination. Many times Amnesty International has expressed deep concern in its reports about the exclusionary policies endorsed and implemented towards the Roma minority by the Czech governments over the years (Amnesty International, 2014). Roma people rights are often violated, their children experience systemic segregation in schools and in general they face constant prejudice and hatred. In 2007, the European Court of Human Rights ruled that the placement of Romani children into the "special schools" (schools for the learning disabled) was occurring in a discriminatory fashion, whereas in 2015 the EU Commission has initiated an infringement procedure against the country for the same reason (Foy and Robinson, 2015).

What it is interesting to notice is that in a recent survey investigating the attitudes of Czechs towards national groups living in the country, the Public Opinion Research Centre shows how the historically marginalized Roma minority maintains the primacy for the worst relation, while Arabs hold the second position (CVVM, 2015a). Nevertheless, these social trends are relatively new. The Arab ethnicity, in fact, was not listed in the 2013 and 2014 surveys (CVVM, 2013a; 2014a), thus showing how the public opinion has considerably radicalized its views only recently. The perception of security threats among the Czech public has changed over the years as well. Whereas terrorism is confirmed as one of the most dangerous threats to the country, according to the opinion of its citizens, radical religious movements have come to be appreciated as such only in the 2014 and 2015 surveys (CVVM, 2014b; 2015b); Czech citizens, in fact, did not include these movements among the threats to security they were asked to identify in 2012 and 2013 (CVVM, 2012; 2013b).

In general, negative attitudes towards Muslims in Czech Republic seem to be usually fueled by demagogic forces in the media, where Muslims are mostly presented only in connection with terrorism. Media coverage of Muslims appears in fact rather scarce, but with a significant focus on sensationalist news that are more likely to increase readership. Both newspapers and television have dedicated a considerable amount of time in underlining the cultural difference as compared to the European traditions and in depicting the potential threats Islam allegedly poses to the old continent. Public debates and media coverage appear to be biased and in general they do not correlate with the scale of real problems, as the latter clearly tend to be overdramatized.

Internet plays a prominent role in the debate about Muslims in Czech Republic. The most famous platform is “Islam v České Republice Nechceme” (We Don’t Want Islam in the Czech Republic), whose Facebook page counts more than 100.000 followers, several times more than the actual Muslim minority settled in the country. This anti-Islamization movement, an expression of the Czech Defense League[1], fosters an internet-based debate which is usually not censored, poorly informed, dominated by ignorance, bigotry and based on emotional reasoning and aggressiveness. Overall, the internet provides an excellent platform for extremists to spread their hatred messages, as their relative anonymity enhances the chances of impunity. As the Ministry of Interior has pointed out in its report, a rising number cyber-bullying cases against those opposed to their Islamophobic visions have been registered (Ryšavý, 2015), a circumstance that has been confirmed by the chair of the Center of Muslim Communities in the Czech Republic, Muneeb Hasan Alravi, who declared that Muslims are facing threats, most often by e-mail (Czech Press Agency, 2015a).

The public debate concerning Islam both in the civic and political arena is particularly lively since many years now. A first public debate sparked on the issue of the construction of a mosque in the small touristic city of Hradec Kralove, showing how the topic of what constitutes acceptable

[1] The Czech Defense League is a far-right street protest movement, fighting Islamization and modelled on the English Defense League

expressions of religious identity have the power to deeply polarize the Czech public opinion. Petitions, street demonstrations and public hearings were organized; outbreaks of vandalism against Muslims' properties were registered. The core of that public debate was the place of Islam and in general the evolving forms of religious expression in the Czech Republic, as well as the limits of tolerance in a pluralistic society. Eventually no new project was approved, leaving Prague and Brno as the only Islamic centers for prayer in the whole country.

Other strong and rather negative reactions among the public also sparked over the controversy concerning a hijab ban in a nursing school in 2013. When two young students left the school because they were not allowed to wear hijabs during lessons, hateful and xenophobic debates appeared on social networks in connection with the case. Anna Šabatová, the ombudsman to whom the students presented their case, described the school's policy as discriminating, because *"the girls were, in effect, denied access to education"*, (Fraňková, 2014) pointing out that prohibiting a head scarf as an expression of religious believes has no basis in the Czech legislation. Strong criticism towards Mrs. Šabatová's stand stemmed from many politicians across the political spectrum, with the president Milos Zeman himself stating that allowing hijab is the first step towards tolerating burqas (ibid.)

It not the first time that President Zeman adds a significant amount of fuel to the fire of the growing tension, as he has repeatedly expressed his controversial opinions publicly. Besides defining Islam as a totalitarian ideology, Zeman has also contested, during what he himself defined a radical speech, the European paralysis towards the Islamic State, which he conceives as a modern appeasement policy against a new totalitarian threat (Czech Press Agency, 2015b). The rhetoric he uses is highly simplistic, stereotyping and clearly represents an incitement to hatred. In a statement in the aftermath of the attack in Brussels, the Czech president has affirmed that it is not only a small fringe of extremists which is usually behind terroristic attacks, but it is Islam to be blamed, as the "very essence" from which violence stems from (Levitt, 2014). By equating the Islamic religion to terrorism, Zeman shows a paramount degree of social irresponsibility and is disrespectful not only to Muslims, but also to all the leaders and institutions engaged in the global effort to promote tolerance and foster inter-cultural dialogue. Often praised by Islamophobes for his anti-Islam public statements, President Zeman represents a key actor in the evolving of the current situation. Czech Republic has a tradition of strong presidents, who have never accepted to be confined to the role of mere symbolic figures, as typical of parliamentary systems. On the contrary, Czech presidents have always been active, even exceeding their constitutional powers, thus playing a crucial part in Czech politics, which is dominated by weak governments handing power without making it to the end of their terms[2]. In 2012, the constitution has been emended, introducing the direct election of the President and hence marking a clear shift towards a semi-presidential system. Milos Zeman is then the first Czech president whose strong and active role has been legitimated at the institutional level. Besides enjoying the traditional high prestige and influence of his figure, with an office located in the seat of Czech kings, Zeman has won his own legitimacy from the citizens themselves, and not indirectly from their representatives. Such a premise can facilitate the understanding of the overall influential power this head of state may have over his citizens.

More extreme positions come from another highly influential politician, Tomio Okamura, leader of the Czech right-wing party Dawn of Direct Democracy (Úsvit přímé demokracie), who was named in 2014 as the third most popular politicians by the STEM polling agency (Beckwith, 2014). Okamura's public discourse mainly focuses on highly simplified and widespread arguments concerning multiculturalism, supported by the rejection of all those who "do not follow our rules", the concept of "hospitality has its limits", and eventually the claim that "everyone could come back to their home countries". The EU, Brussels and the immigration policy are often blamed for imposing liberal and naïve principles that do not fit into the Czech society and only risks to destabilize it, since they allow the development of Islamic practices in Europe. His discourse and his party as well seem to function on a politicization of resentment basis, focusing the attention on the most sensitive issues and then moving the interest to another once the debate has somehow calmed down. Okamura has in many occasions fueled the debate on the Muslim minority. Recently the Tokyo-born politician has urged Czechs to oppose Islam by walking pigs and dogs near mosques and by boycotting Muslim fast-food as financing such kind of commercial activities would take them a step closer to the veil (Tharoor, 2015). Okamura is not new to such headline-grabbing remarks and actions: last year, for instance, he called for the whole Roma minority to be deported outside Czech Republic and he visited a prison convicted for racial-motivated murder (Beckwith, 2014).

The Workers Social Justice Party (Dělnická strana sociální spravedlnosti) should also be mentioned in the context of Islamophobia. By trying to channeling the hysteria after the Charlie Hebdo attacks and thus exploiting the French issue to secure support, this far-right anti-immigration movement, well-known opponent of multiculturalism policies, has taken a clear Islamophobic stand. While in the past its main claim against a multicultural Czech Republic mainly relied on the classical bigoted argument of the protection of Czechs' interests, now the new enemy is the "hateful Islamic

[2] From 1993, only two governments have made it to the end of their mandate, Václav Klaus (1992 – 1996) and Miloš Zeman (1998 – 2002).

ideology", enjoying a concerning expansion all over Europe. The leader's, Tomáš Vandas, ferocious attacks are not different from the vicious verbal expressions used by Okamura, as both far-right representatives try to appeal to the more xenophobic sections of the Czech society.

Finally, highly controversial is also the issue of religion associations. To be eligible for state subsidies, religious associations must be registered, and in order to be registered, they must gather petitions from more than 10.000 members (Schneider, 2007). This condition has rendered the registration process for the Muslim association extremely contentious, as the amount of members required account for almost the entire community present in the entire country. Despite its eventual registration in 2004, life has not been easy for the Czech Muslims Association, as already in the same year a petition from a Buddhist association was submitted, asking to reconsider the registration on the basis of Islamic incompatibility with human rights and promotion of violence. In September 2014, as Amnesty International (2014) points out in its latest report, a petition containing 25000 signatures has been addressed to the government calling on the authorities not to allow the Association of Muslim Communities to build Muslim schools and teach Islam (id.), a right that any religious organization is entitled to after being registered for longer than 10 years.

Conclusion

By means of a discursive analysis, this paper has attempted to explain the dynamics of threat construction as related to framing of Islam as an issue of security concern. The aim is to contribute to the research on the securitization of Islam, by focusing on the role played by the securitizing actors that speak the Islamic threats into existence.

The saliency of the topic relates to the fact that the growing number of Muslims in Europe, combined with the their increased negative visibility offered by the mass media, is challenging identities in Europe and producing cultural polarization. In particular, the construction of otherness as referred to the Muslim culture is channeling fears about an allegedly inevitable clash of civilization. In addition, problems concerning immigration to Europe have given birth to dramatic fears of an invasion, as these constant flows of people on move are perceived as a challenge and threat to both national identities and security.

Overall, the findings suggest that securitization processes may be explained only through a comprehensive look at societal and cognitive processes. As we have seen, the role played by both perception of risks and sense of identity are of great importance when discussing security threats, as they are all matters of social construction. The findings further reveal a prominent negative hyper-visibility of Muslims in the country under examination, that is to say Czech Republic.

Demonstrating the exact role played by public discourse is difficult due to the complex processes involved. It is nonetheless possible to affirm that political communication shapes both the information available and the way individuals use it to conceptualize reality and that public discourse has been highly successful in speaking the alleged Islamic threat into existence. The frequent media association of Muslims to fundamentalism and terrorism has certainly had repercussions on the general social representation of Muslims, who have come to be perceived by many as sympathizing for the terrorist cause. Empirical cases such as Islamophobia in Czech society reveal the shortcomings of the masses and the power of those shallow populist narrations that seduce the audience. It goes without saying that the anti-Islamic rhetoric assuming that all Muslims should be held responsible for terrorism represents a shameful incitement to discrimination. Globally condemning an entire group of people for the vicious acts of a small few, just because they share the same religion, hurts all those people professing Islam peacefully and who reject the misuse of Islam as a justification for violence. Not to forget that such an approach may also undermine the fight against terrorism itself, which is identified as a priority for Western societies. As the U.S. National Counterterrorism Center points out, the promotion of inclusion and tolerance is crucial for reducing vulnerability to radicalization, while building trust in law enforcement increase the willingness to cooperate.

My conclusion is that, given the negligible size of the Muslim community in Czech Republic, it is reasonable to assume that a significant component of Czech population, indeed a vast majority, has never encountered or interacted with Muslims. As a result, the image and perceptions the population has developed are filtered by mass media and political discourse to a great extent. The paper thus suggests that the media coverage and the political rhetoric may represent a potential cause of the Islamophobic sentiments spreading all over Czech Republic, since they have encouraged negative social representations and contributed to the creation of distorted visions of the Muslim community within the Czech society and all over the world.

The clash between Muslims and Czechs is nonetheless more ideological than actual, since episodes of inter-cultural violence are rare/have not been registered as Mareš (2011) recalls. It seems that the resistance and hostility towards Muslim serve as a wide, general and symbolic framework to embed all social frustrations. Some role is certainly played by the subconscious search for someone to blame for all economic difficulties, a very common social attitude during recession times. There might also be some connection to the Communist era: the dominant mentality, which did not allow anyone to differ in any way, might have influenced the tolerance of Czechs towards differences.

Since the country may have latent problems of racism and discrimination, as proved by the Roma issue, principles of collective blame and intolerance should not be encouraged. If public discourse keeps on playing a populist role in dealing with such delicate issues, the already growing anti-Muslim mood could only intensify. Hence it is a question of social responsibility for both the mass media and the political class. In order to avoid further escalation of social tensions and citizens to succumb to far-right ideologies, these two public actors should refrain from fueling any distorted vision of Islam and Muslims, and distance themselves from any message voicing alienation and discrimination, as well as the failure of multiculturalism. Civic initiatives aimed at promoting platforms of intercultural and interreligious dialogue should be supported and promoted. Not to mention the potential of education. Since one of the problems is definitely the lack of experience with Islam, a focus on constructive discussions on cultural difference and immigration might help tear down the identity barriers, reduce marginalization, reverse the development of cliché and stereotypes and guide the new generations to develop more multicultural and tolerant mindsets.

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THE EU'S NEIGHBOURHOOD TRADE ARRANGEMENTS

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Abstract: *The elusive outcome of the Doha Round has increased the importance of the preferential trade agreements worldwide. Currently, the EU`s trade policy is driven by preferential negotiations. European bilateralism is important and extremely challenging. This union aims to conclude a significant number of deep and comprehensive free trade agreements, particularly by eliminating tariffs, and also by facilitating the trade of services, investments, procurement and regulatory matters. The EU has granted unilateral preferences to developing countries through tariff free access to the EU market, thereby helping them to eradicate poverty and promote sustainable development. Based on the primary motives of Europe's preferential trade agreements, we have analysed the trade agreements negotiated with geographically close neighbours to which the EU is prepared to offer commercial accession or some slightly less ambitious type of relationship.*

Keywords: FTA; exports; imports; neighbourhood trade areas; SITC section
JEL Classification: F13; F15

Introduction

The World Trade Organisation (WTO) is an international institution designed to help global trade liberalisation. It offers an institutional forum under the framework of which governments can negotiate trade agreements and settle trade disputes through a system of trade ru les. As the most important actor in international trade, the EU supports the work of the WTO decision-making process regarding multilateral trade liberalisation and sustainable development. The active involvement of the EU in multilateral trade means more products for sale at competitive prices, more growth and more jobs. Unfortunately, the Doha negotiations have advanced slowly. Currently, the European Union has turned its attention to the negotiation and conclusion of bilateral trade agreements, outside the WTO. This does not weaken the EU's commitment to the WTO. European bilateralism is important and extremely challenging. These new trade agreements go beyond import tariffs as their importance has diminished. They deal with regulatory barriers for goods, services and investment, intellectual property rights, public procurement, protection of innovation, sustainable development and other important issues.

These preferential trade agreements are negotiated by taking into consideration all essential aspects (geographical, economical etc.) in order to conclude a fair trade liberalisation that will benefit all parties. The present paper deals mainly with the eastern and Mediterranean commercial

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cooperation of the European Union. The EU has negotiated trade agreements with seventeen countries and territories, and with most of them it has already concluded Association Agreements. The main purpose of these agreements is to take a step forward towards a closer integration of the EU`s geographical neighbours into the EU`s single market.

1. The Eastern Commercial Cooperation of the EU

In the following, we have chosen to present the EU’s achievement on neighbourhood trade cooperation. The analysed countries are part of the European Neighbourhood Instrument (which replaced European Neighbourhood and Partnership Instrument). It is one of EuropeAid’s geographical instruments and the financial arm of the European Neighbourhood Policy (ENP) (European Commission, 2006).

The map below gives a geographical view of the research on which this present paper is based. Thus, the legend of this map is:

- *light green colour:* the EU;
- *dark green colour:* Partners under the European Neighbourhood Policy, covering the European Neighbourhood and Partnership Instrument (ENPI) until 2013 and the European Neighbourhood Instrument (ENI) as of 2014 on (including the Russian Federation) and others.

Figure 1 – EU cooperation with its neighbours

Source: EU Neighbourhood Info Centre (2014) “ENP Map”, available at: http://enpi-info.eu/medportal/publications//682/ENP-Map

The ENI countries and territories represent the east and south customs area of the EU region, namely: Belarus, Ukraine, Moldova, Russian Federation, Georgia, Armenia, Azerbaijan, Syria, Tunisia, Israel, Occupied Palestinian Territory, Jordan, Egypt, Libya, Algeria, Morocco, and Lebanon. These are seen by the European Union as strategic and important partners for the economic and commercial development abroad.

The EU is the most important trading partner for countries from its eastern side. It accounts for more than a third of Ukrainian trade (it is also its main source of Foreign Direct Investment), and for around 50% of Moldova's trade (being the biggest trade partner for this country). The European Union is also the main trade partner for Georgia, Armenia, and Azerbaijan, and the second main trade partner for Belarus (with almost a one third share in the country's overall trade). The Russian Federation responds for almost half of Belarus' international trade and it is the third trading partner for the European Union. The 2008 economic crisis and unilateral measures adopted by Russia slowed down trade cooperation between these two regions. As the EU is the first trading partner for Russia, Russia has been more affected by the crisis (European Commission, 2015a).

The European Union has concluded or is negotiating different types of trade agreements with these seven countries that are based on economic and trade interests of both parties to each free trade agreement. In the section that follows, we'll present the main objectives of these trade agreements, and also the current situation of EU Trade with the countries at its eastern side. Generally, the purpose of a Free Trade Agreement (FTA) is to open markets for goods and services, to make trade faster and cheaper, and to increase investment opportunities.

Table 1 – EU Trade Flows with the Eastern Area by AMA/NAMA product Groups, annual data 2014 (Millions Euros)

Country	*Imports*	*Exports*	*Commercial Balance*
Belarus	3,429	7,464	4,035
Ukraine	13,761	17,143	3,382
Moldova	1,159	2,354	1,195
Russia	181,844	103,296	-78,548
Georgia	657	1,912	1,255
Armenia	276	714	438
Azerbaijan	13,159	3,482	-9,677

Source: Own processing based on the European Commission Statistical Database

In 2014, the EU signed **Association Agreements** with Moldova and Georgia. Both Agreements introduce a preferential trade regime (Deep and Comprehensive Free Trade Area – DCFTA). This type of trade cooperation is important for the EU as we can see in the above table (Table 1). In 2014, the imports with Moldova accounted for 1,159 million euros. According to the Standard International

Trade Classification (SITC) section, 28.8% of the EU imports from Moldova were represented by miscellaneous manufactured articles, 19.4% by food and live animals, 17.8% by manufactured goods classified chiefly by material, and 17.3% by machinery and transport equipment. The EU exports to Moldova accounted for 2,354 million euros with a balance surplus of 1,195 million euros. According to the SITC section, 29.8% of the EU exports to Moldova were represented by machinery and transport equipment, 19.7% by mineral fuels, lubricants and related materials, and 17.8% by manufactured goods classified chiefly by material.

The EU trade balance with Georgia accounted for 1,255 million euros. The imports from Georgia of 657 million euros were represented by mineral fuels, lubricants and related materials (32.6%), by crude materials, inedible, except fuels (20.2%), and by food and live animals (18%). The value of EU exports to Georgia was 1,912 million euros. These include 27.2% of machinery and transport equipment, 25.5% of mineral fuels, lubricants and related materials, and 15.6% of chemicals and related products (European Commission, 2015b).

Under DCFTA, between the EU and, separately, Moldova and Georgia, a new preferential trade regime was agreed upon based on the World Trade Organisation's principles. It was a step forward towards a closer integration for these countries. It removes import duties for most goods and provides for broad mutual access to trade in services. It allows EU companies and companies from Moldova and Georgia to benefit from the same treatment as domestic companies in the partner's market. One of the important aims of the DCFTA is to attract foreign investment into the economies of Moldova and Georgia.

The international trade of the EU with other three countries (namely, Azerbaijan – since 1999; Armenia – since 1999; and Russia – since 1997) is currently regulated by the **Partnership and Cooperation Agreements**. The EU is currently negotiating Association Agreements with Azerbaijan and Armenia in order to maximise bilateral cooperation. But with Armenia the implementation of the Association Agreement was suspended in September 2013 due to Armenia's commitments to negotiate its membership in the Customs Union of Russia, Belarus and Kazakhstan, as negotiations on both agreements are incompatible. The Partnership and Cooperation Agreement between parties envisages only quantitative restrictions in bilateral trade (European Commission, 2015a).

With Azerbaijan the trade and economic cooperation is wanted to be based on WTO rules. At the present time, only the EU is a member of the WTO, Azerbaijan applied for membership to the WTO in 1997 and the process is ongoing.

In 2014, the EU trade balance with Azerbaijan recorded a deficit of 9,677 million euros. EU imports from this country accounted for 13,159 million euros and covered 98.8% represented mineral fuels, lubricants and related materials. EU exports to Azerbaijan accounted for 3,482 million euros. According to the SITC section, 41.1% of these were represented by machinery and transport equipment, 15.9% by manufactured goods classified chiefly by material, 14.2% by miscellaneous manufactured articles. However, EU trade with Armenia recorded a surplus of 438 million euros in 2014. The imports worth of 276 million euros were represented by manufactured goods classified chiefly by material (48.1%), crude materials, inedible, except fuels (16.1%), and miscellaneous manufactured articles (14.7%). The EU exports to Armenia accounted for 714 million euros and were dominated by machinery and transport equipment (25.5%), manufactured goods classified chiefly by material (19.3%), and miscellaneous manufactured articles (17.6%) (European Commission, 2015b).

The most important trade partner for the EU with which cooperation is established through a Partnership and Cooperation Agreement is the Russian Federation. They have a strong trade relationship. The bilateral trade and investments continue to grow rapidly. The new EU-Russia Agreement (currently under negotiation) should provide a comprehensive framework for bilateral relations with stable, predictable and balanced rules for bilateral trade and investment relations. However, the EU trade balance recorded a deficit of 78,548 million euros in 2014. EU imports from Russia accounted for 181,544 million euros and were dominated by mineral fuels, lubricants and related materials with a percentage (74.9%). EU exports to Russia accounted for 103,296 million euro. According to the SITC section, 45.9% were represented by machinery and transport equipment, 18.5% by chemicals and related products, and 13% by miscellaneous manufactured articles (European Commission, 2015b).

Today, having in mind the Customs Union between Russia, Kazakhstan and Belarus and the difficulties for Russia to fulfil its WTO commitments, it is not clear how further progress can be achieved in the Trade and Investment field and with regards to the New Agreement in general. Unfortunately, Russia introduced new protectionist measures at a time when a liberalisation of the trade regime would have been expected in order to protect certain of its sectors. Thus, it is important for the European Union to be aware of the benefits of Russia's accession to the WTO.

The bilateral trade and economic relations between the EU and Belarus are established only through the **Trade and Cooperation Agreement** (which was concluded between the European Community and the Soviet Union in 1989 and subsequently endorsed by Belarus). In 2007, the EU withdrew its trade preferences to Belarus under the Generalized Scheme of Preferences and also introduced an Outward Processing Trade regime for Belarus. In 2014, the EU-Belarus trade accounted for 4,035 million euros. The EU imports from Belarus of 3,429 million euros have assumed 33.3% of mineral fuels, lubricants and related materials, 24.4% of manufactured goods classified chiefly by material, 16.5% of chemicals and related products, and 11.9% of crude materials, inedible, except fuels. The EU exports to Belarus accounted for 7,464 million euros. These were represented by sections of machinery and transport equipment (44.3%), chemicals and related products (18.5%), and manufactured goods classified chiefly by material (13.7%) (European Commission, 2015b).

In 2014, the EU negotiated with Ukraine a **Deep and Comprehensive Free Trade Agreement** as part of their broader Association Agreement. In Table 1 we can see that the trade between the EU and this country is productive for EU, accounting for a surplus of 3,382 million euros. EU imports from Ukraine amount to 13,761 million euros were representing manufactured goods classified chiefly by material (27.9%), crude materials, inedible, except fuels (18.9%), food and live animals (18.1%) and machinery and transport equipment (10.3%). EU exports to Ukraine amounting to 17,143 million euros represented sections such as machinery and transport equipment 28.8%, chemicals and related products 21.5%, manufactured goods classified chiefly by material 15.2%, mineral fuels, lubricants and related materials 11.7% (European Commission, 2015b).

In the framework of the DCFTA, Ukraine has committed itself to harmonizing a large number of rules, norms and standards in a number of trade-related areas with those of the EU. In September 2014, to avoid further destabilisation of the country, and in particular to guarantee Ukraine's access to the CIS market under the Ukraine-Russia bilateral preferential regime, the EU postponed implementing the DCFTA until January 2016.

2. The Mediterranean Commercial Cooperation of the EU

The EU is an important trading partner for countries from the South side. The trade with this region is based on strategic products and services.

The EU is Morocco's first trading partner with who it launched negotiations for a **Deep and Comprehensive Free Trade Area** (DCFTA) in 2013. This DCFTA is away in order to negotiate an Association Agreement that will bring Moroccan legislation closer to EU legislation in trade-related areas. In 2014, EU imports from Morocco accounted for 11,012 million euros (see Table 2 below). According to the SITC section, 34.8% of these were represented by machinery and transport equipment, 26.1% by miscellaneous manufactured articles, 20.4% by food and live animals. EU exports to this country accounted for 18,224 million euros and were dominated by sections as machinery and transport equipment (33.5%) and manufactured goods classified chiefly by material (21.7%) (European Commission, 2015b).

The European Union is Algeria's largest trading partner. They concluded an **Association Agreement** in 2005. This agreement sets out a framework for the EU-Algeria relationship in all areas including trade. Algeria is an important EU trading partner in the Mediterranean region and a member of the Euro-Mediterranean Partnership (Euromed). In 2012, Algeria signed the regional Convention on preferential rules of origin for the Pan-Euro-Mediterranean area, which will replace the current network of bilateral protocols by generating new opportunities for economic operators (European Commission, 2015a). In 2014, the EU-Algeria trade balance recorded a deficit of 6,014 million euros. EU imports of 29,392 million euros were covered 96.7% by mineral fuels, lubricants and related materials. EU exports to Algeria accounted for 23,378 million euros. These were represented by machinery and transport equipment of 37.2%, manufactured goods classified chiefly by material of 20.1%, and food and live animals of 13.2 % (European Commission, 2015b).

Table 2 – EU Trade Flows with Mediterranean Area by AMA/NAMA product Groups, annual data 2014 (Millions Euros)

Country	*Imports*	*Exports*	*Commercial Balance*
Syria	89	687	598
Tunisia	9,354	10,987	1,633
Occupied Palestinian Territory	14	140	126
Egypt	8,567	16,950	8,383
Libya	12,478	5,316	-7,162
Algeria	29,392	23,378	-6,014
Morocco	11,012	18,224	7,212
Israel	13,071	16,982	3,911
Jordan	330	3,687	3,357
Lebanon	328	6,551	6,223

Source: Own processing based on the European Commission Statistical Database

In 1995, Tunisia signed an **Association Agreement** with the EU. In 2011, the EU started negotiations for Deep and Comprehensive Free Trade Agreements with Tunisia. This DCFTA will extend beyond the aim of the existing Association Agreement and it could lead to a gradual integration of Tunisia's economy into the EU single market. In 2014, EU imports from Tunisia accounted for 9,354 million euros. According to the SITC section, 37.9% of these were represented by machinery and transport equipment, 33.4% by miscellaneous manufactured articles, 13.5% by mineral fuels, lubricants and related materials. EU exports to Tunisia of 10,987 million euros were covered by sections as machinery and transport equipment (34.9%), manufactured goods classified chiefly by material (22.7%), and mineral fuels, lubricants and related materials (14.1%) (European Commission, 2015b).

With Libya the EU started negotiations for a **Framework Agreement** in 2008. However, following the 2011 events in Libya, negotiations were suspended. Libya is the only Mediterranean country (with the exception of Syria) that has not yet concluded a Free Trade Agreement with the EU. Libya is not a WTO member. In 2014, the EU-Libya trade balance recorded a deficit of 7,162 million euros. EU imports from this country accounted for 12,478 million euros and were dominated by mineral fuels, lubricants and related materials with a percentage (98.4%). EU exports to Libya amounting to 5,316 million euros were represented by mineral fuels, lubricants and related materials (29.4%), machinery and transport equipment (24.3%), and food and live animals (19.6%).

The EU-Egypt **Association Agreement** establishes a free-trade area with the elimination of tariffs on industrial products and significant concessions on agricultural products. In 2013, the EU and Egypt began an exploratory dialogue on a Deep and Comprehensive Free Trade Agreement (DCFTA) in order to improve market access opportunities. In 2014, EU imports from this country amounting to 8,567 million euros covered sections such as mineral fuels, lubricants and related materials (48.9%), manufactured goods classified chiefly by material (13.7%), and chemicals and related products (13.5%). EU exports to Egypt accounted for 16,950 million euros. These were represented by machinery and transport equipment (33.1%), chemicals and related products (17.8%), and manufactured goods classified chiefly by material (11.4 %) (European Commission, 2015b).

In 2002, the EU-Jordan **Association Agreement** entered into force. It establishes a Free Trade Area between the EU and Jordan over 12 years. In 2011, the EU started negotiations for Deep and Comprehensive Free Trade Agreements with Jordan. The DCFTA would extend significantly beyond the scope of the existing Association Agreement and could lead to a gradual integration of Jordan's economy into the EU single market. In 2014, EU imports from Jordan accounted for 330 million euros. These were dominated by chemicals and related products (38.3%), machinery and transport equipment (19.9%). EU exports to Jordan amounting to 3,687 million euros covered sections such as machinery and transport equipment (32.4%), chemicals and related products (16%) and food and live animals (15%).

Bilateral EU-Syria relations are governed by the **Cooperation Agreement** signed in 1977. Syria and the EU have negotiated an Association Agreement. However, the signature of the Association Agreement between the EU and Syria has been put on hold by the EU due to the internal situation in Syria. The ongoing internal repression in Syria has also led to restrictive measures by the EU and has had a significant impact on bilateral trade. In 2014, EU imports from this country accounted for only 89 million euros (dominated by crude materials, inedible, except fuels sector – 51%), and EU exports to Syria accounted for 387 million euros. The exports were represented by machinery and transport equipment (27%), food and live animals (25.8%), chemicals and related products (20%) (European Commission, 2015b).

Bilateral trade between the EU and Lebanon has been increasing steadily over the past years. The EU-Lebanon **Association Agreement** entered into force in 2006. It has progressively liberalised trade in goods between the EU and Lebanon. Lebanon already has a Free Trade Agreement with the EU. In 2014, EU imports from Lebanon accounted for 328 million euros and covered sections such as crude materials, inedible, except fuels (22.8%), miscellaneous manufactured articles (16.2%), manufactured goods classified chiefly by material (15.4%) and chemicals and related products (14.1%). EU exports to Lebanon accounted for 6,551 million euros. These were represented by mineral fuels, lubricants and related materials (31.1%), machinery and transport equipment (18.4%) and chemicals and related products (13%).

Israel is an important trading partner for the EU in the Mediterranean area, and the EU is the first trading partner for Israel. In 2000, the EU-Israel **Association Agreement** entered into force by providing a framework for political and economic cooperation between the parties. Israel is part of the Euro-Mediterranean Partnership (Euromed). In 2014, EU imports from Israel accounted for 13,071 million euros and were dominated by sections such as chemicals and related products (27.1%), machinery and transport equipment (18.2%) and manufactured goods classified chiefly by material (16.3%). EU exports to Israel accounted for 16,982 million euros. These were represented by machinery and transport equipment (37.2%), manufactured goods classified chiefly by material (18.3%) and chemicals and related products (18%).

Due to the difficult economic situation and restrictions on movement and access, trade between Palestine and the EU is very limited. In 1997, an **Interim Association Agreement on Trade and Cooperation** was concluded between the EU and the Palestine Liberation Organization. In 2012, an Agreement for further liberalisation of agricultural products, processed agricultural products and fish and fishery products entered into force. There are a number of constraints and limitations resulting from the on-going Israeli-Palestinian conflict and the continuing occupation, including settlement activity, restrictions to movement as a result of the closure policy and the separation barrier (European Commission, 2015a). In 2014, EU imports from Palestine accounted for 14 million euros (32.8% of food and live animals, 27.7% of animal and vegetable oils, fats and waxes) and EU exports to Palestine accounted for 140 million euros (dominated by sections such as machinery and transport equipment of 48.9%, and food and live animals of 20.4%) (European Commission, 2015b).

Conclusions

The present paper is based on research of statistical data published by the European Commission on trade flows of the European Union with seventeen countries and territories which are partners under the European Neighbourhood Instrument. The main purpose of the EU`s trade cooperation with its geographical neighbours is to assure economic and commercial development abroad that will be to the advantage of all parties. The analysis was divided into two parts, one part was focused on countries from the EU's eastern border and the other part on countries and territories from the EU's southern border (the Mediterranean area).

We observed that the free trade agreements concluded and negotiated by the EU with the countries from east side are the strategic instrument towards a closer integration. The EU is the most important trading partner for these countries. It's the main source of Foreign Direct Investment for Ukraine, the biggest trade partner for Moldova, the main trade partner for Georgia, Armenia, and Azerbaijan, the second main trade partner for Belarus (after Russia), and the first trading partner for Russia. As regards to trade arrangements, the EU signed Association Agreements with Moldova and Georgia (introducing a preferential trade regime), Partnership and Cooperation Agreements with Azerbaijan, Armenia, and Russia, Trade and Cooperation Agreement with Belarus, and DCFTA with Ukraine. Unfortunately, the 2008 economic crisis and unilateral measures adopted by Russia, Belarus and Armenia have slowed down trade cooperation between the EU and these three countries. According to the SITC section, EU imports with these countries were dominated by mineral fuels, lubricants and related materials, manufactured goods classified chiefly by material, and miscellaneous manufactured articles. EU exports were dominated by machinery and transport equipment.

With the territories from the south side the EU negotiated and concluded (in some cases) free trade agreements which represented a good step towards an economic and commercial partnership with the Mediterranean Area. Unfortunately, the integration process is slow due to political conflicts in this area. The EU launched negotiations for a DCFTA with Morocco, signed the Association Agreements with Algeria, Egypt, Jordan, Israel, Lebanon and Tunisia, started negotiations for a Framework Agreement with Libya (and in 2011 these negotiations were suspended), concluded a Cooperation Agreement with Syria, and concluded an Interim Association Agreement on Trade and Cooperation with the Occupied Palestine Territory. According to the SITC section, EU imports with these countries were dominated by the following sectors: machinery and transport equipment, crude materials, inedible, except fuels, mineral fuels, lubricants and related materials, chemicals and related products, and food and live animals. EU exports were dominated by the machinery and transport equipment sector.

It is worth noting that the European Union is committed to bilateral trade agreements being signed or negotiated in order to prepare the ground for the next level of multilateral liberalisation and decision making at the multilateral level. The EU has used the negotiation of such agreements in order to solve problems that are not ready for multilateral discussion and to prepare the ground for the next level of multilateral liberalisation.

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TOWARDS A LAW OF SUSTAINABLE FISCAL RESOURCES

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Abstract: *Our approach aims to raise the benchmarks intended, we believe, to print efficiency rules for public financial law which, by definition, governs the issue of budgetary resources. Knowing the mechanism of legal and tax and the use of this type of resource, given the current context, we introduce some approaches to the position of financial law located in the best connection with economics, and we consider key issues of this - crisis/ growth, sustainable development, strategies/ policies, state intervention tools etc. aiming to easier to put out various budgetary implications caused by certain processes/ phenomena in the real economy. Also, we bring some elements of analysis, comments and views coming to justify the importance of rights (set of rules and principles of major influence) the financial and fiscal consolidation based in the extent possible, the development lasting nature. It is expected thus that such a law (fiscal consolidation based on sustainability) can drive more speedily to create a stable tax system capable of generating sufficient budgetary resources in terms of efficiency and efficacy, ensuring cost reductions with unit budget and compliance taxpayers being, while flexible, simple, transparent and adaptable to national/ international changes.*

Keywords*:* financial/economic law; legislation contributors; sustainability; budget revenues; public expenditure; efficiency
JEL Classification: H50; H53

Introduction

Modern society increasingly realizes that amid the existence of limited economic resources as possible becomes difficult to ensure - quantitatively and qualitatively - obvious needs and necessities are increasing. Whether it is about primary resources (human and material), derived (created by people on the basis of the primary) or intermediate (financial means and the necessary capital transfer/ transformation of the primary resources in a circuit) (Dobrota *et al*., 1998; Didier, 1994; Frois, 1994; Lipsey and Chrystal, 1999), the limited nature of their hampers today in all countries, resolving meet human requirements and economic interests. The prospect seems more complicated, increasing the tension between the needs of growing assembly and resources are limited and rare, considering the signals fired by prestigious international for aimed at crisis of global resources, population growth and worsening environmental situation (Dutu, 2008, 2007; 2004 Kiss and Beurrier, 2010; Thieffry, 2011). A first look favorably noticed so far is that the difficulty and widening, to obtain appropriate quality and quantity of resources, determined that the interest of users for a higher utilization of those resources (Bran and Ioan, 2009; Dobrescu and Albu, 2005; Bretschger, 1999; Hogendorn, 1996; Camasoiu *et al*., 1994; Mayer, 1995; Todoro, 1997; Tinica *et al*., 2010; Bostan, 2014). This, besides the other determinations made, namely that economic resources are disproportionately scattered

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across countries, leading ultimately to a certain type of economic policy for acquiring them more or less advantageous, from those who participate in economic life. Recently, some authors (Padurean *et al*., 2014; Dinga *et al*., 2011) have retained their works that although the literature deals with both issues of taxation and issues of sustainable economic development, the connection between them is not as present. Some writers noted that no causal relations between structural and functional system of taxation and economic sustainability are not treated sufficiently clear and elucidated in the literature. This gave impetus to reveal the conceptual plan some benchmarks tax regime which is compatible with sustainable economic development. Attributing a more elaborated definition of the term "tax instruments" meaning "those levers of public finance, by which the state acts to fulfil its functions, to achieve the objectives of macroeconomic policy to stimulate and/ or stabilize economic activity" states that they are based on a legal framework governing their way of operating. However, the use of levers of this type involves the pursuit of their effectiveness, To mobilize the necessary volume of revenues while encouraging economic activity, investment, ensuring fiscal equity, social protection and the environment, requiring consideration of the fact that appreciably influences the behavior of taxpayers, which has an impact on the balance of goods and services market, the labor market or on the financial, etc. It turned out, moreover, that tax cuts on income/ gains influence the dynamics of financial market transactions. Possible actions of fiscal instruments which, by their actions, influence, one way or another growth in a context of sustainable development (Padurean *et al*., 2014) include the fact that the government can use fiscal instruments in order to reduce tax profits of enterprises to restore economy in the expansion phase or the personal income tax reduction leads to increased disposable income and can affect the growth rate of capital accumulation; reduction of income tax from wages can stimulate labor supply. In our case, insisting the direction of tax - sustainable development, we cannot avoid complications to the plan of the recent global financial crisis discussion (Maha and Mariciuc, 2009; Oprea *et al*., 2013; Stoica and Capraru, 2012). Fiscal policies sustainable based - always on the law (emphasis. Ns.) – being those "policies that do not lead to the explosive growth of indebtedness of the state, or after which no action is taken to increase taxation to curb spending monetization of the budget deficit or public debt repudiation" (Blanchard, 1990), by the way we relate to them, we believe bring more conviction. Certainly, knowing the mechanism of legal and tax on the formation and use of budgetary resources (Drosu-Saguna and Tofan, 2010), given the context showed some approaches to the position of financial law located in better connection to economics, and we consider its key problems - crisis/ growth, sustainable development strategies/ policies, state intervention tools, etc., are intended to make easier out various budgetary implications caused by certain processes/ phenomena in the real economy. Therefore, in the following we bring some elements of analysis, comments and views coming to justify the importance of rights (set of rules and principles of major influence) strengthening financial and tax based in the extent possible, on durable development type.

1. The need of creating awareness of the contributors when creating financial tax normative act from the light of sustainable economy/ development

Overall, about an act we can say that it is effective if its implementation is reached as high as targets on which was promoted/ adopted the rule. As is known, the legal standard is the more effective so as includes appropriate sanctions for infringements of the provisions set (Dogaru, 2006). It is true, the sanction materializes the legal responsibility of offenders - ensuring effective law in general, along with moral, political and religious penalties - and represents a measure against the will of which infringes the rules of law being applied by bodies empowered in this. But in our opinion, the standard efficiency depends on other factors, which, if content having financial fiscal rules, that we will stop here briefly. First, be noted that the rules having financial content-tax figure composition to financial law and regulates many aspects of public finance, as funds available to the state (or local communities) to perform the functions and tasks (DEX, 1996). The main regulations include the Public Finance Act (Law no. 500/2002), Local Public Finance Law (Law no. 273/2006), Tax Code (Law no. 571/2003), the Tax Procedure Code (Government Ordinance no. 92/2003), stating that from 1 January 2016 become applicable - new codes in tax Fiscal Code (Law no. 227/2015) and the Fiscal Procedure Code (Law no. 207/2015). Considering financial law (Mining and Costas, 2006; Costas and Minea, 2015a, 2015b; Balan, 1999; Bostan and Grosu, 2009; Grosu and Bostan, 2010; Bostan, 2007, 2010a, 2010b; Bostan and Radu, 2003) of course, must be included other sources (in their totality, they are grouped as follows: i) constitutional rules; ii) primary legislation; iii) secondary legislation; iv) European legislation), but we, in our references we only target the primary and secondary legislation. To some extent, when we make remarks on the line of need to strengthen the financial and tax-based sustainable development/ economy, we stop and on legislation adjacent respectively the governing of specific issues regarding public finances, institutions assimilated financial support measures/ encouragement of economic activities etc. Stated briefly, we can say that the rules of law, finance, be they budgetary concerning budgetary procedure, accounting standards, relative to budget execution and asset management, tax rules relating to the main taxes, fees, contributions - that public revenues are characterized by efficiency, only in so far as those below are valid played. Accordingly, the consolidated budget - the result of applying these rules - one type balanced behaves dynamics, correlations and proportions that reflect the health obvious socio-economic system national allow reasonable allocation on all destinations for which the state/ government is responsible, the characteristic durability. However, the same rules should ensure a better management of public assets management, integrity/ its development, budget combating fraud/ tax evasion etc. Or, as shown on aspects of the last indicators shown, it can be appreciated that the rules in question have fully achieved the objectives for which they were introduced. Therefore, outside their (hardness of sanctions imposed), an increase in quality of performance submitted by contributors to the creation of financial-fiscal enactment is required. In particular, due to their often very technical, but mostly justified by the importance of budget component of a country, we suggest that it a professionalization of the activities of the makers of financial and fiscal norms is imposed, with consideration of what is important in terms of economic/ sustainable development. We have in mind that these contributors, beyond members of Parliament - the legislature classic - include specialists/ consultants of the initiators of legislature, drawn in the impact assessment draft legislation on the basis of cooperation with scientific research institutes, universities, companies or NGOs. It also leaves its mark on the quality standards the staff of the authorities concerned in their implementation, depending on the purpose of the legislation, which must issue opinions (Law no. 24/2000). Obviously, it matters to some extent and trends of citizens' views on the formation and use of budgetary resources ("public money"), but this order issues (fiscal) leaves no place for action for the citizen legislative initiative; according to Art. 74 - Legislative initiative of the Romanian Constitution, "... (2) may not be legislative initiative of citizens tax issues, international affairs, amnesty or pardon" (Constitution, 2003). So under "legislative initiative in the sphere of taxation" chapter registers solely Government and Members of Parliament. In general, a draft law "should establish rules necessary, sufficient and potential rules to lead to a greater *stability and efficiency as legislative*. The solutions contained therein must be duly substantiated, taking into consideration the interests of social, legislative policy of the Romanian state and the requirements correlation with all internal regulations, as well as the harmonization of national legislation with Community law and international treaties to which Romania is a party" and always "To substantiate the new rules will start from current and future social desires and the inadequacies of current legislation" (Law no. 24/2000). Returning to real contributors one mentioned that between them entering and experts who prepare the explanatory memorandum, the substantiation or essays approval and impact studies, as appropriate, accompanying draft legislation, or those who conclude documents of Public Policy - approved by parliament or by government - for normative acts impacting the social, economic and environmental impact on the consolidated budget, the legislation in force (Law no. 24/2000). Then as well, we can add here and specialist staff drawn into "documentation and scientific analysis for a thorough knowledge of economical and social reality to be regulated, the history of legislation in that area, as well as similar regulations in foreign legislation ..." or members of specialized committees to draft codes or other complex legislation, namely due to the initiative of Parliament or Government, constituted Legislative Council or under its coordination (Law no. 24/2000). Awareness of all these participants - directly or indirectly – at the act of building the standard financial and tax must be stated that the imposition, through legislation, only the new taxes / fees or increasing existing ones, although it is easy and leads on short term to an increase in public revenue is not sustainable in the long term. On the contrary, it is jeopardizing the entire social-economic activity following such measures. Therefore, we consider that the familiarity of factors discussed with real economic problems (micro- and macro-) and sustainable development is intended to lead to highly efficient financial and tax legal rules and ensuring the sustainability of economic and social policies, in budgetary terms.

2. Short term budgetary objectives and legal environment of regulation in the context of sustainable economy/ sustainable development

Referring to some aspects of the medium-term budgetary objectives and the legal framework, we show that the stability of public finances depends on the smooth functioning of the Economic and Monetary Union (EMU). Equally, financial discipline is a prerequisite for sustainable economic growth.

2.1. European regulations on tax policy

The euro zone sovereign debt crisis led to boosting coordination of fiscal policies, appearing more than necessary to achieve consistency with the national fiscal governance of the European Union (EU). Rules enacted in fiscal policy at EU level include (i) The Stability and Growth Pact (SGP), (ii) European Semester (SE), (iii) The package of six legislative measures on economic governance, (iv) the Treaty on Stability, Coordination and Governance in the EMU, including fiscal pact. The EU economic governance structure is based on macroeconomic SE for policy coordination - introduced in the first half of 2011, which aims at evolving our economies synchronized without considerable macroeconomic differences with budget deficits below 3%. SE is a common instrument for coordinating economic and fiscal policies of the Member States of the EU, which monitors budgetary discipline, macroeconomic stability and policies to promote growth which provides that states which do not obey the rules will be fined. PSC is a rules-based legal framework for the coordination of national fiscal policies in the EU, established to strengthen public finances. Medium-term objective (MTO) gives preventive arm structure in accordance with the provisions of Regulation (EC) 1466/97. It stipulates that each Member State should have differentiated targets in the medium term for their budgetary position, objectives (budget) that may diverge from the requirement of *close to balance* or position *in surplus* while providing a safety margin limit 3% of GDP budget deficit. This limit provides some budgetary flexibility, taking into account public investment needs of MS. In Romania, according to the Treaty on Stability, Coordination and Governance in the EMU, signed on the 2nd of March 2012, the rule concerning the structural budget deficit, finding situation deviation from this and automatic correction mechanism in case of deviations have been introduced in national legislation by amending the fiscal Responsibility Law (Law no. 69/2010). This change was made later by another law (Law no. 377/2013).

2.2. The importance of respecting the medium-term budgetary objective to ensure the rapid developments towards a sustainable situation

Limiting the structural deficit that we have previously referred too leads to the impossibility of engaging in pro-cyclical fiscal policies and fiscal discipline imposed by budgetary resources being spent responsibly and efficiency. What it is pursued, essentially, is to avoid rising public debt, public expenditure interest and overload monetary policy. In other words, through a mix of future policies it is achieved the assumed medium-term objective, ensuring rapid progress towards a sustainable situation, favoring public investment growth.

Quadrant 1 (MFP, 2014, 2015):

Projection of fiscal policy over the medium term is based on its anchoring in some economic benchmarks and institutional pillars: macroeconomic balance, fiscal responsibility and financial discipline. It is continued the balanced conduct, which began in the second half of 2012, sustainable fiscal consolidation and, in this context of economic recovery. Among the fundamental objectives of simplifying taxation falls predictability in taxation and creating a tax environment - stimulating budget for public and private economic development environment. Characteristics of fiscal policy for the period 2014-2017 include that it must be subordinated to the fundamental objective of economic, fiscal vision to be one qualitative requiring that stimulate economic environment, investment and entrepreneurship. Concurrently, is increased the efficiency of public spending and investment promotion. The reference period 2015-2018 will be marked by continued fiscal consolidation by reducing ESA deficit from 2.0% of GDP in 2014 to 1.2% of GDP in 2015, plus 0.25 percentage points adjusted for co-financing projects supported by European funds and 1.1% of GDP in 2016 and 2017.

Referring to the 2014 data, Romania's GDP grew by 2.8%, the fourth year of growth (1.1% in 2011, 0.6% in 2012, 3.4% in 2013), which reinforces the tendency for recovery from the economic and financial crisis of 2009 and 2010 (Romanian Government, 2015). The increase was mainly due to private consumption growth, which was supported by strong growth in real wages and low interest rates. Since the EC and IMF forecasts an acceleration of economic activity in the EU and domestic economic environment will improve in the context of reducing VAT (GEO no. 6/2015), Romania would register a gradual improvement in economic performance in the period 2015 - 2018, so as to recover decreases in the crisis years - 2009 and 2010. Turning to fiscal policy applicable in 2015, we show that in the course on improving economic governance in the European Fiscal Treaty, applicable from January 2013 are established clear rules requiring the Contracting Parties compliance/ convergence towards budgetary target in the medium term (MTO) of the country, with a lower limit of a structural deficit (cyclical effects and one-off are not taken into account) 0.5% of GDP (1.0% of GDP for Member States with a debt ratio significantly below 60% of GDP). For 2015, the specific objectives of fiscal policy are related to continued fiscal consolidation through further adjustment ESA deficit from 2.2% of GDP in 2013 to an estimated deficit target of 1.2% of GDP in 2015 plus an adjustor of 0.25 percentage points of GDP to co-finance European projects. In terms of budget revenues there are felt the effects of previously agreed measures such as the reduction of social insurance contributions (CASS) 5% for the employer tax exemption on profits reinvested profits, reducing the tax rate from 1.5% to construction 1%, the broadening of the application of the reduced VAT rate of 9% for food etc. However, the negative impact would be offset due to economic multiplier effects, but also by implementing efficient measures by ANAF revenue collection system.

2.3. Characterization of fiscal policy for the period 2015-2017. Base normative

The most important objective of taxation link to simplifying it and creating a predictable tax environment - stimulating budget for developing the economic environment, things mentioned under fiscal strategy for the years 2014-2016 (Romanian Government, 2014). Also during 2015-2017, fiscal policy retains the same principal characteristics as those mentioned in the previous strategy, namely: taxation must be subordinated to the fundamental objective of economic development; Fiscal vision must be qualitative, stimulate economic environment, investment and entrepreneurship; the efficiency of public spending and investment promotion. Also, in the medium term, the Government has proposed including elements of strengthening fiscal policy, further measures to increase the efficiency of the tax system by rewriting the Tax Code and the Fiscal Procedure Code - things made, incidentally. Law no. 227/2015 on the new Tax Code comes into effect, with some exceptions, from 1 January 2016 and brings a lot of changes from the old version - Fiscal Code - Law no. 571/2003, as further amended and supplemented (Milcev, 2015). The most important of these changes include Title VII of VAT, the standard VAT rate reduced to 20% from 1 January 2016 and 19% from 1 January 2017. VAT rate is reduced from 9% to 5% for delivery textbooks, books, newspapers, magazines, and services on access to castles, museums, memorial houses, cultural events etc. The share of 5% applies for social housing for those households with a value of up to 450,000 lei, compared with 380,000 previously. We use the reverse charge mechanism for the supply of buildings or parts of buildings and land of any kind, for whose delivery apply tolling scheme by law or by choice, provided that both the supplier and recipient, to be registered for the purpose VAT. It will apply the reverse charge mechanism for the supply of mobile phones, tablet PCs, laptops, game consoles and integrated circuit devices (microprocessor), provided also that both the supplier and recipient to be registered for the purpose of VAT. VAT adjustment for capital goods will also apply to goods whose payback period is under 5 years. With respect to excise, their level has been modified for products: sparkling wines: 47.38 lei/hl of product; still fermented beverages other than beer and wine: 396.84 lei/hl of product; Alcohol: 3306.98 lei/hl of pure alcohol. Also, since 1 January 2017, the excise duty for the following products will be reduced as follows: leaded petrol: 1948.23 lei to 1,000 liters; unleaded petrol: 1656.36 lei to 1,000 liters; Diesel: 1518.04 lei to 1,000 liters. It was removed non-harmonized excise duty for coffee, luxury goods such as jewelry, furs, natural, cars with an engine capacity greater than or equal to 3,000 cm^3, weapons, yachts etc. Non-harmonized excise duty will be applicable for the following products: liquid containing nicotine (electronic cigarettes) and heated tobacco products. In terms of local taxes was liberated hotel tax and have introduced a number of exemptions linked to them, while others were transferred to the section on community facilities in chapters on each of these taxes/ fees. There were introduced new provisions according to which the tax on buildings, land and means of transport will be due for the entire fiscal year of the person who owns the asset at December 31 of the prior fiscal year and not fractions of a year before. Tax buildings/ tax land will not pay annually (in two installments), but monthly. The local council may increase the building tax and land tax by up to 500% for untidy buildings and land, located in town. In addition, local governments can increase local taxes by 50% from the peak levels established in the Tax Code, compared to 20% as it was previously. Relative to all these, some experts consider that there is a sizeable fiscal relaxation appreciable “the first-round negative effect on the budget is over 2% of GDP in 2016” (Dumitru, 2015). On the other hand - as if invoking the fact that an important principle in tax administration is the principle of substance over form, whereby, when the IRS is working towards establishing the tax, it must reflect the realities and not appearance - are taxed all income and values property, whether the activities of which are obtained meet or not the legal requirements and economic results of certain invalid legal acts. In this context, we consider adequate several references to the New Code of Fiscal Procedure (NCPF) (Milcev, 2015b). The main changes related to the principle of *”In dubio contra fiscum”*, found in the new regulation (Law no.

207/2015), which enters into force on 1 January 2016, include five main rules of interpretation of tax law. If, when using these rules of interpretation there are still unclear issues it will be applied interpreting tax rules in favor of the taxpayer. NCPF sanctions by absolute nullity issuing a fiscal administrative act in breach of competence. It introduces the possibility of tax authority to issue a new administrative act if the originally issued has been cancelled. But this is limited by the expiry of limitation or if the annulment of the act concerned substantive flaws. NCPF amends the term for the applications submitted by the taxpayer within 90 days if it is necessary to conduct a tax audit for its resolution. There are also introduced new cases of extension of this term by the tax authority. It was covered for all tax obligations a start of one flow limitation period, namely 1 July of the following year for which tax liability is due. Making a tax audit would suspend the limitation period for fiscal body right to determine tax obligations, only during its legal period. The duration of the tax audit has been differentiated according to the category of taxpayer (180 days - large taxpayers, 90 days - medium taxpayers, 45 days for other taxpayers). If the legal duration of the fiscal inspection is exceeded illegally by statutory tax audit by a period equal to the duration of the legal one, the tax audit terminated without issuing a tax audit report. In this case the tax inspection can be resumed with the consent of superior body and observing the period of limitation. The new legislation establishes a maximum period of suspension of the tax audit for 6 months. It covers the possibility that at the request of the taxpayer, the tax auditor to issue a decision to impose provisional during a tax audit, the taxpayer for the purpose of paying the additional tax liability set by the tax. As unplanned, this cannot be longer than 30 days. Also for the same transactions and related tax obligations cannot simultaneously carry out unannounced checks and tax inspection. NCPF concealing establishes a penalty of 0.08% per day for the main tax obligations undeclared or incorrectly declared by the taxpayer and the tax authority established by the tax decision. The penalty for failure to declare the tax will apply to claims arising after 1 January 2016. Finally, precautionary measures have been limited and the ability to appeal to the administrative court; precautionary measures will not be able to establish for a period longer than 6 months or for one year in special circumstances and their decision of establishing is direct attacked through the administrative court.

Conclusions

A right of fiscal consolidation based on sustainability excludes easy implementation - as unique – of those rules allowing direct recourse to those instruments to increase consolidated budget revenues by raising tax rates/ charges in the economy. Strengthening the financial and fiscal we see based solely on development/ sustainable style economy and efficiency this is why we brought to debate the financial rules of law. They are characterized by efficiency, only to the extent that the consolidated budget - the result of their application - is one of type balanced, behaves dynamics, correlations and proportions that reflect the obvious health of socio-economic system, allows national reasonable allocation on all destinations legal, the sent the characteristic’s durability. However, as shown on aspects of the last indicators shown, it can be appreciated that the rules in question have fully achieved the objectives for which they were introduced. Therefore, outside is a need to increase the quality of their performance contributors submitted - directly or indirectly - to the creation of financial-fiscal enactment, with consideration of what is important in terms of economic/ sustainable development. In particular, due to their often very technical, but mostly justified by the importance of budget component macroeconomic we suggest that it is required a professionalization of the activity of the makers of rules fiscal-financial, focusing on the side of economic and financial. We considered that these contributors beyond MPs - classic legislature - include specialists/ consultants of the initiators of legislature, drawn in the impact assessment of draft legislation. Also, on the quality standards puts its mark the staff of the authorities concerned in their implementation, depending on the purpose of the legislation, which must deliver opinions, the experts who develop explanatory memorandum and impact studies accompanying the draft legislation, or those concluding public policy documents, expert staff drawn in documentation and scientific analysis for a thorough knowledge of economical and social reality to be regulated, the history of legislation in that area, as well as similar regulations in foreign law or members of specialized committees drafting of codes etc. All these motivated the first part of our work to be devoted to explaining the need to create awareness contributors financial fiscal enactment in terms of economic/ sustainable development. Then, trying to justify the direct link which must be imposed between the issue of taxation and issues of sustainable economic development in the context of specific legislation bearing the European print accentuated in the second part of the approach we approached the budgetary targets over the medium term and the legal framework in the context of sustainable economy/ sustainable development. What is clear is that the stability of public finances plays a special role in ensuring the smooth functioning of Economic and Monetary Union, which is explained by the fact that ensuring financial discipline is a prerequisite for achieving a stable price level over the medium term and sustainable economic growth. Characterization of fiscal policy for the period 2015-2017, finally achieved, and some references to the basic laws in our theme - new Tax Code and the new Code of Fiscal Procedure - were meant to emphasize the importance of character as sustainable print Romanian fiscal system.

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THE EUROPEAN UNION'S EXTERNAL AFFAIRS POLICY – THE HIGH REPRESENTATIVE OF THE UNION FOR FOREIGN AFFAIRS AND SECURITY POLICY – A FAVORABLE FRAMEWORK FOR CREATING A SINGLE VOICE FOR THE EUROPEAN DIPLOMATIC SYSTEM OR JUST A NEW BUREAUCRATIC STRUCTURE?

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Abstract: *Starting with the Lisbon Treaty, which establishes the new European diplomatic landscape structure, this paper analyses the difference between the objectives expressed in the treaties governing the European Union's foreign policy, and the diplomatic European and international reality. The main objective of this paper is to reveal the extent in which the European Union runs a coherent and unified foreign policy, especially highlighting the problems faced by these institutions in the current international environment, after five years since the creation of the High Representative of the Union for Foreign Affairs and Security Policy, as well as the European External Action Service The results of this paper show that, although from a legal standpoint it was attempted to clearly outline how the Union's external policies should work, on a practical level, this area still faces difficulties in performing at its full capacity.*

Keywords: European Union; diplomacy; foreign affairs; The High Representative of the Union

Introduction

> A day will come when you France, you Russia, you Italy, you England, you Germany, you all, nations of the continent, without losing your distinct qualities and your glorious individuality, will be merged closely within a superior unit and you will form the European brotherhood (…) A day will come when the only fields of battle will be markets opening up to trade and minds opening up to ideas. A day will come when the bullets and the bombs will be replaced by votes, by the universal suffrage of the peoples, by the venerable arbitration of a great sovereign senate (…) (Victor Hugo, 1849, Peace Congress in Paris).

One of the first measures taken in regard to closer cooperation in foreign affairs was the creation of the European Political Cooperation (EPC) in the 1970s, institution that came to symbolise the need for dialogue at European level (Bindi *et al.*, 2010, p.1). After a considerable number of frail attempts for setting the ground of a common policy for external affairs, only in 1986, through the Single European Act, it was specifically expressed in a European treaty the incentive to "formulate and implement a European foreign policy" (Official Journal of the European Communities,1987, Single

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European Act, article 30, paragraph 1). The historical context was the one that offered a considerable support to the cooperation between European Communities member states. At the time when the Single European Act was signed, the bipolarity of the Cold War was starting to become more and more fragile. The signs of the Soviet's Union decline were starting to be more and more visible and if the European Union would have wanted to become a major actor on the international scene, certain measures were required.

The reforms continued in 1992 through the Maastricht Treaty, which is also known as the Treaty on European Union. This specific treaty is considered to have played a fundamental role in the Union's reform, since it was needed to adapt its structure and its definition as a European body for two reasons: the first one is represented by the natural evolution of the European community and its institutions and the second one refers to the necessity to adapt to the new political realities of the continent (considering the fall of communism in the east European countries). This treaty formally establishes the EU's Common Foreign Security Policy.

In essence, through this treaty, the foundations of the European Union are laid out, being constructed on three pillars: the European Communities, the Common Foreign and Security Policy and the Justice and Internal Affairs. We find in this treaty „the eventual framing of a common defence policy" (Official Journal of the European Communities (1992), *Treaty on European Union*, Title V, Art. J.4), which in time, would lead to a real common defence. The Treaty of Maastricht was later complemented and improved through the Amsterdam Treaty, signed on the 2nd of October 1997 and effective since May 1st, 1999 and, the needed institutional reforms of the EU enlargement process were also set out in the Nice Treaty signed on the 26th of February 2001 and entered into force on February 1st, 2003.

Subsequent discussions regarding the strengthening and development of security standards in this area were forged following the adoption of the European Security Strategy (A Secure Europe in a Better World) in 2003. The evolution and consecutive reforms have strengthened the Union's discussions towards a stronger consolidation of the European actions and identity through the creation and setting of a Constitution. Signed on 29th of October, 2004, the treaty provided a European Constitution that would replace the founding Treaties of the EU with a single fundamental text defining the powers and roles member states in relation to each other, as well as with external partners. This treaty would have been more effective if it would have establishing a stronger foreign policy coordination by creating the Position of European Union Minister for Foreign Affairs. The year 2005 was a setback for the European Union since France and the Netherlands rejected the ratification of the Constitutional Treaty by national referendum.

The deadlock created at the European Union's level was somewhat broken after the Intergovernmental Conference in October 2007, which drafted the Treaty of Lisbon which would come to increase the role of national parliaments in the decision-making process at EU level and help overcome problems caused by the rejection of the constitutional treaty.

1. The Lisbon Treaty – consolidating the European Union's role at an international level

If we are to talk about a coherent and consistent foreign policy, it is necessary to note the fact that the evolution that the European Union has had at an institutional level is reflected in its policies. Moreover, if we look strictly at the foreign affairs and security policy, the Treaty of Lisbon sets appropriate actions, thus outlining such a policy.

The EU's 1997 Treaty of Amsterdam was the first document to identify for the first time the four main CFSP instruments: *Principles and Guidelines*, which provide general political direction; *Common Strategies*, which set out objectives and means; *Joint Actions*, which address specific situations; and *Common Positions*, which define an approach to a particular matter. The Lisbon Treaty rearranges CFSP instruments into four types of *Decisions*, giving these instruments a larger and more important role in the institutional framework of the EU: *(1)* on the strategic objectives and interests of the EU, *(2)* on common positions, *(3)* on joint actions, and *(4)* on the implementing arrangements for common positions and actions.

2. Other changes brought by the Lisbon Treaty:

Making a parallel between the pre- and post- Lisbon competences in the foreign affairs domain, we can clearly observe the following institutional distribution:

Pre-Lisbon – The High Representative for Common Foreign and Security Policy (CFSP) and the The Commissioner for external relations were responsible of the European Union's external actions, each one of them having specific areas of action.

Post-Lisbon – The High Representative of the Union for foreign affairs and security policy (HR/VP) which, at the same time, is one of the Vice-Presidents of the European Commission.

The Lisbon Treaty created a new institutional system for conducting EU's external affairs. It created the HR/VP position which is supported in its actions by the European External Action Service. Moreover, it has abolished the pillar structure, and replaced it with a merged legal personality for the Union, thus transforming the perception of the EU at an international level. As we can clearly observe, the assigning of the HR as a Commission Vice-president is meant to bring a more coherent and constructive action in the foreign affairs area.

According to the Lisbon Treaty, The High Representative's role is wide-ranging and it involves (http://eeas.europa.eu/background/high-representative/index_en.htm):

- Steering foreign policy on behalf of the EU;
- Coordinating the EU's foreign policy tools – development assistance, trade, humanitarian aid and crisis response – as the Vice-President of the European Commission;
- Building consensus between the 28 EU countries and their respective priorities – including through monthly meetings between EU foreign ministers, which she chairs;
- Attending regular meetings between leaders of EU countries in the European Council;
- Representing the EU at international forums, such as the United Nations;
- Heading the European Defense Agency and the EU Institute for Security Studies.

The Appointment of the HR/VP is made following this procedure(Treaty of Lisbon, Title II, Art. 9E, paragraph 1):

- It is made by the European Council, that decides with qualified majority (55% of the member states and 65% of the EU's population);
- Being also a VP of the European Commission, he is subject to the approval vote of the European Parliament.

Among the HR Duties we find that it (Treaty of Lisbon, Title II, Art. 9E):

- Contributes to the development of the CFSP (presents proposals to the Council and Commission);
- Implements the decisions taken;
- Representation: conducts the political dialogue with third countries and has the responsibility to express the EU positions in international organizations;
- In the Council, the HR/VP has to ensure the coherence and continuity of the works regarding the foreign affairs of the EU (it chairs the Foreign Affairs Council);
- In the Commission, is in charge with the responsibilities incumbent to the Commission in external relations domain.

Concerning the decision making process, the member states and the HR/VP have the right of initiative and the High Representative is supported in exercising this right by the Commission. The HR informs and consults on a regular basis the European Parliament regarding the implementing of CFSP. Unanimity remains the general rule to adopt a decision in the Council in matters that regard

CFSP. There are still a few exceptions in which the Council can take a decision with a qualified majority.

The EU's external policies, strategies, instruments and missions are overseen by the European External Action Service and are based on four key aims:

- They support stability;
- Promote human rights and democracy;
- Seek to spread prosperity;
- Support the enforcement of the rule of law and good governance.

The staff for the EEAS is drawn from the Commission and the Council and from the member states diplomatic services. This service can provide support to the president of the Council, the president of the Commission or other commissaries on issues regarding foreign affairs.

The Lisbon Treaty also grants the President of the European Council, the task to ensure at his level, the external representation of the EU, without inflicting prejudice to the High Representative, the same task being valid for the President of the Commission (It is not stated however the manner in which the activities should be split among these positions).

Final remarks

Having all this information put together and analysed, we can put forth a set of opportunities and problems that have been identified. Amongst the identified opportunities we can name:

- Improving visibility, effectiveness and coherence of EU action;
- Bringing together the different components of public diplomacy of the Union to a complete structure under the authority of a single person;
- Enhancing and developing the Common Security and Defense Policy due to the consistency on ways to address the priorities;
- When faced with international new crisis with the capability to act responsibly and coherently, the HR can achieve greater cohesion within the EU;
- Strengthening the role of 'eyes and ears' Union (EU delegations), which currently represents the interests of the entire Union abroad.

Although the debates are usually focused around opportunities, we can clearly observe set of issues, as well, regarding the European Foreign Affairs structure. From the identified problems, we can name the following:

- Creation of a new architecture management (President of the European Council, the High Representative, who at the same time, has a role of Vice-President in the Commission) will improve the external visibility and significance globally, but at the same time, creates confusion in the responsibility and influence between old and new positions;
- complicated procedures;
- lack of qualified personnel and depreciation of the selection procedure.

At the beginning of her mandate Federica Mogherini said: "We need to spend the next five years to shape our common policy, our common vision, our common strategy, and this is my first task for the next five years - to form a genuine common policy". In this excerpt from one of her first speeches, the High Representative, accepts and understands the reality of the moment, namely that the previous mandate had the primary task of institution building, whereas, at present, the importance of this mandate lies within the necessity to strengthen the foreign policy in order to establish coherent and comprehensive foreign actions. We can observe from the two info-graphs (regarding the number of meetings the HR/VP had during her first 100 days in office (Annex 1) and also regarding the meetings that took place at the UN General Assembly(Annex 2) on five key domains - official visits outside of EU, official visits to EU countries, bilateral high level meetings, EU institutional meetings and forums) that even with a rather weak start, we went from an average of about 1 meeting per day (the first 100 days of mandate), to an average of nearly 10 meetings per day (in the course of just 6 days within the UN General Assembly). Although the General Assembly context was more prone to meetings, we can nonetheless note that there was a strengthening of diplomatic meetings and of the ways of diplomatic actions. If her predecessor, Catherine Ashton, had as a main concern defining and strengthening diplomatic institutions in the spirit of the Lisbon Treaty, Federica Mogherini has the difficult task of shaping EU’s foreign policy. Moreover, the current HR has the assignment to drive EU’s external actions so that it proves to be a real global actor, while managing to establish a consensus among Member States. The meetings that took place show a growing interest in developing and increasing both internal and external partnerships. In order to have a coherent foreign affairs policy there must be enhanced the relations inside and outside of the Union, with the appropriate balance between the two spheres so that EU’s actions as a global actor can always aim promptly and efficiently the core of the problem. This seems to be the road the current HR is proposing for the European Union and her actions look more determined and aimed at solving the current issues. At the same time, she is looking to offer a solid background to address and prevent future crisis.

When analyzing EU’s foreign affairs, we must look at the European Union from a particular perspective: it being a unique structure, different than any other existing actor. If such a structure will continue to strengthen its Foreign Affairs institutions, under a consistent and coherent leadership, using clear procedures in its day to day activity and address policies with prevention procedures in what regards domestic and foreign crises, they could come forward with a way to deal with external issues and crises worthy of being considered an example.

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ANNEXES

Annex 1 – Info-graph for the first 100 days in office

Source: European External Action Service, available at: http://eeas.europa.eu/top_stories/2015/infographic-100-days-mandate_en.htm

Annex 2 – Info-graph for United Nations 70th General Assembly

Source: European External Action Service, available at:

http://eeas.europa.eu/top_stories/2015/infographics_mogherini_united_nations_general_assembly_unga70_2015_en.htm

THE STEEL EUROPEAN STOCK MARKET EFFICIENCY

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Abstract: *Testing the hypothesis of informational efficiency is a permanent preoccupation of researchers because the theories and the models of modern finance are based on it. This paper presents the results obtained after testing the efficiency hypothesis, in the weak form, for the European stock market of the companies that belong to the economic steel sub-sector. Following the use of both linear and non-linear tests of autocorrelation of returns we can conclude that the European stock market in the economic steel sub-sector is inefficient from an informational point of view and the investors in these stocks may obtain better results than those of the European market in general.*

Keywords: steel & iron subsector; stock; return; BDS test; Runs test
JEL Classification: G15; C58

Introduction

In 1900, Bachelier anticipated, the efficient market concept, in his Ph.D. thesis in mathematics, at Sorbonne (Bachelier, 1900). He wrote that "past, present and even discounted future events are reflected in market price, but often show no apparent relation to price changes".

In the field of finance, Eugene Fama formulated the efficient financial market hypothesis, in 1965 (Fama, 1970). The studies in this field are justified by the fact that the theories and models of modern finance rely on the efficient market hypothesis.

The efficient market theory appears as a statement of the pure and perfect market theory, as presented by Adam Smith and by the economists belonging to the 19th century, applied to the field of finance.

Eugene Fama identified three types of informational efficiency, depending on the available information and on the velocity of the incorporation of this information in the asset prices: weak, semi-strong and strong. The weak form of informational efficiency implies that the current price of the assets reflects all the information about the assets market: previous prices, transactions volume. When the markets are efficient in the weak form, the prices should change only when new information appears on the market. The prices do not follow a trend that could be subsequently identified. According to the semi-strong form of informational efficiency, the assets prices instantly modify as a consequence of new public information, such as: the division of assets, economic and politic

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novelties, company balance sheets. The strong form of informational efficiency implies that all pieces of public or privileged information are reflected in stock exchange price. If all new pieces of information (named shocks) that appear on the market are instantaneously reflected in the prices of financial assets, then an investor may obtain a profit from holding an asset portfolio but the return obtained is not higher than that of the market as a whole. Yet, if the capital market is not efficient, the asset returns can be forecasted and an investor can get a higher profit than the market from the anticipation of the evolution of asset prices.

Literature mainly focuses on testing the informational efficiency in the weak form (Hazan et *al*., 2012; Dumitrescu *et al*., 2011). Even if the majority of studies approach the testing of the efficiency of the capital market of certain countries (Oprean *et al*., 2014; Pele and Voineagu, 2008; Dragota and Mitrica, 2004) or a region (Enninful and Dowling, 2013) there are also studies that focus on testing the efficiency of the monetary market, for instance EUR/USD market (Boboc and Dinica, 2013).

In order to test the efficiency, the benchmark indices are usually used for the analyzed stock markets (Dragota *et al.*, 2014) but the variations of the currency exchanges (returns) of the stocks listed on that respective market are also applied (Urquhart, 2014).

For testing the informational efficiency in the weak form the most used methods are: autocorrelation test, Runs test, variance ratio test and BDS test.

The results obtained when testing the informational efficiency hypothesis are contradictory. A. Urquhart (2014) tests the efficiency of ten European Union countries and confirms the clear efficiency for Netherlands and Germany, certain non-efficiency for Spain, Ireland and Finland, while for the other countries the results are contradictory in accordance with the test used.

Dragota and Tilica (2014) study 20 East European former communist countries by means of the analysis of market indices as well as for the most liquid stocks. The period under consideration comprises the time lapse 2008-2010 corresponding to the latest financial and economic crisis. The results confirm the inefficiency of the markets studied regardless of the test used.

The present study brings a new approach to what has previously existed. If the previous studies focus on studying the informational efficiency of a stock market in a country, in several countries or in a geographical region, we focus on studying the informational efficiency of the market comprised of the stocks of a single economic activity field from the European stock market. We consider the firms from the steel subsector (comprised in the index STOXX® Europe TMI Industrial Metals) in order to test the informational efficiency in the weak form for the European steel stock market. The stocks studied are not all listed on a national stock market since they belong to the European market.

The importance of studying the steel stock market resides in the fact that this economic sub-sector is connected with a progressing development of the global economies (Jonek-Kowalska, 2015).

For testing the efficiency we used the Ljung-Box Q-statistic test, Runs test and the BDS test. The results obtained confirm the inefficiency of the European stock market in the economic steel sub-sector.

1.Methods and data

If the capital market is efficient, the returns (prices variation) of the financial assets cannot be predicted. If the capital market is not efficient, the asset returns may be forecasted based on its previous values because they are autocorrelated. Therefore, in order to test the informational efficiency in the weak form, statistical tests of serial correlation of returns are being used.

To test the serial correlation of returns we will resort to linear and non-linear tests because a series may have a non-linear correlation even if it does not have a linear correlation.

For testing the informational efficiency, in the weak form, we will use: the autocorrelation test (Ljung-Box Q-statistic) and Runs test which represent tests of linear correlation and the BDS test which is a test of non-linear autocorrelation.

The test Ljung-Box Q-statistic is computed on the basis of the covariances in the following way:

$$\rho_k = \frac{\gamma_k}{\gamma_0}$$

where: ρ_k - autocorrelation coefficient of order k , γ_k, γ_0 - covariance at lag k and respectively the variance.

The null hypothesis of the test Ljung-Box Q statistic, H_0 implies that we have an autocorrelation coefficient equal to zero which means the series follows a random, non-predictable process and the alternative hypothesis H_1 implies that we have a statistically significant autocorrelation coefficient meaning that there is a series that can be forecasted.

The BDS test was introduced by Brock, Dechert, LeBaron and Scheinkman in 1996 (Brock *et al.*, 1996) to determine the correlation dimension. The null hypothesis of the BDS test supposes that the observations are independent and identically distributed and the alternative hypothesis is not specified. The rejection of the null hypothesis formulated on the errors in the model is a sign of the presence of the non-linearity phenomenon.

In order for the results obtained by means of the BDS test to be influenced by the presence of linear serial dependence and/or a conditional heteroscedasticity, we will use the methodology employed by A. Urquhart (2014). Firstly, the BDS test will be applied to the initial data obtained for return. Then the linear serial dependence and the conditional heteroscedasticity will be excluded through the estimation of the model AR(p)-GARCH(1,1) corresponding to each series and the BDS test will be applied for the standardized residuals. The rejection of the null hypothesis (of the BDS test) formulated on the errors is a sign of the presence of the non-linearity phenomenon (Jula D. and Jula N.M., 2015).

The estimated model AR(p)-GARCH(1,1) has the form:

$$r_t = \beta_0 + \sum_{i=1}^{p} \beta_i r_{t-i} + \varepsilon_t$$

$$h_t = \alpha_0 + \alpha_1 h_{t-1} + \alpha_2 \varepsilon_{t-1}^2$$

where: r_t the compound continuous return, β_0, β_i the parameters of the equation of the mean of heteroscedastic model, $\varepsilon_t, \varepsilon_{t-1}$ the residual variable obtained from the mean equation at the moment t respectively t-1, h_t, h_{t-1} the conditional variance at the moment t respectively t-1.

2. Results of analysis

The study takes into consideration the most liquid stocks of the companies in the iron & steel sub-sector. The selected companies and the notations for their log-returns are: Acerinox (ACE), Acelormittal (ACR), Aperam (APE), Evraz (EVR), Ferrexpo (FER), Kloeckner&CO (KLO), Salzgitter (SAL), Ssab A (SSA), Ssab B (SSB), Tenaris (TEN), Voestalpine (VES). Thomson Reuters Datastream is the source for the data on the price of these stocks. The study period is comprised during 3/01/2011 – 30/01/2015, for each stock existing 1065 daily observations. APE and EVR are the exception because for them we have 1046 and respectively 845 daily observations.

Table 1 - Descriptive statistics for returns

Returns	Mean (%)	Kurtosis	Jarque-Berra
ACE	-0,115	5.3	237.6
ACR	0.001	5.3	250.5
APE	-0,026	5.9	408.4
EVR	-0,086	5.5	230.3
FER	-0,199	5.6	309.6

KLO	-0,081	16.3	8146.0
SAL	-0,086	6.2	493.9
SSA	-0,098	5.8	371.6
SSB	-0,097	7.1	767.4
TEN	-0,037	9.4	1870.3
VES	-0,013	6.3	522.8

Note: a, b and c indicate statistical significance at 1%, 5% and 10% levels.

In order to determine the stock returns we use log-returns which are calculated according to the relation (Chirila V. and Chirila C., 2015):

$$r_t = \left(\ln \mathrm{P}_t - \ln P_{t-1}\right) \cdot 100$$

where r_t - log return and P_t, P_{t-1} - the stock price at moment t respectively t-1.

In the first stage of estimation of AR(p) model the unit root tests Augmented Dickey-Fuller and Philips-Perron were used (Asandului, 2012). The results obtained confirm the stationarity of all returns.

The mean of daily returns of the stocks is negative which implies that investors should not expect to obtain profit from holding each and every action for one single day. The exception is made by ACR which has a daily positive but very small return. The results obtained for the Jarque-Berra test confirm that the return distribution does not follow a normal law and the possible cause for that is the kurtosis excess of the returns presented in Table 1. The kurtosis excess of returns also suggests the possibility of modelling the returns by means of heteroscedastic models. This idea is numerically supported by the results of the dependence tests (the Ljung-Box Q-Statistic test performed on the square of returns) which are not presented here due to lack of space.

The results of testing the autocorrelation of stock returns present in Table 2 show that the returns are not autocorrelated for a taken risk of 1% and for different lags.

Table 2 - Autocorrelation statistics and runs of test z-statistics for the returns of European steel stocks

	Autocorrelation test			Runs test
Returns	lag 1	lag 3	lag 5	z-statistic
ACE	0.018	1.569	6.91	-0,204
ACR	0.256	3.262	8.99	-0,204
APE	4.576b	11.950a	20.66a	-0,959
EVR	2.374	4.161	17.16a	-2,382b
FER	0.473	3.846	5.09	-0,757

KLO	6.414b	29.150a	35.97a	-0,488
SAL	2.239	5.304	6.02	-2,204b
SSA	2.712	4.287	8.06	-2,945a
SSB	5.078b	6.857	10.54c	-3,243a
TEN	0.030	4.438	6.06	0,203
VES	3.998	6.263	17.28	-1,172

Note: a, b and c indicate statistical significance at 1%, 5% and 10% levels.

The stocks APE, KLO and SSB represent the exception which are autocorrelated if we take a higher risk (of 10%). Therefore, this test indicates the informational efficiency in the weak form for the stocks in the steel sector.

The results obtained for the Runs test confirm the lack of autocorrelation for the majority of returns of the stocks studied. The exception is represented by four of the eleven stocks: EVR, SAL, SSA and SSB. This test also confirms the informational efficiency.

Table 3 - The BDS test results for the returns of European steel stocks

Returns	Embedding dimension ($\sigma = 1$)			
	2	3	4	5
ACE	3.560a	6.125a	7.410a	8.687a
ACR	1.915b	3.152a	4.134a	4.825a
APE	3.818a	7.248a	8.878a	10.089a
EVR	0.497	0.737	0.843	0.825
FER	1.954b	3.386a	4.651a	5.831a
KLO	1.498	3.166a	3.285a	3.413a
SAL	3.569a	5.786a	6.804a	8.027a
SSA	4.932a	6.535a	6.890a	7.326a
SSB	4.483a	6.128a	6.475a	6.827a
TEN	4.363a	5.381a	5.800a	6.461a
VES	6.773a	8.269a	9.671a	10.989a

Note: a, b and c indicate statistical significance at 1%, 5% and 10% levels.

The linear tests used (the test Ljung-Box Q-Statistic and Runs test) do not detect the autocorrelation of stock returns. In exchange, the results of testing the non-linear autocorrelation by means of the BDS test highlight the presence of the non-linearity phenomenon. Therefore, the BDS test confirms the inefficiency of the European steel stock market. As a consequence, the investors through the investments in these stocks, may obtain following the arbitrages performed better results than the general European capital market.

Conclusions

The study undertaken took into consideration the most liquid stocks of the companies in the economic steel sub-sector from the European area in order to test the efficiency of the stock market from this field. The results obtained by means of the linear autocorrelation tests confirm the hypothesis of efficiency but the use of non-linear tests reveals the fact that the returns are autocorrelated and the analyzed market is therefore inefficient.

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THE REFUGEES AND THE ECONOMIC GROWTH IN THE EU STATES: CHALLENGES AND OPPORTUNITIES

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Abstract: *Nowadays, one of the major concerns of the EU leaders is how to cope with the large inflows of refugees that are coming from the Arab region, because of the prolonged conflicts and civil wars. While some EU leaders consider that this is a humanitarian crisis and the member states should act accordingly, others consider that these people are migrants and not refugees. From the economic perspective, the opinions are also divided. Some analysts see this large influx of refugees as an opportunity for the economic and social environment, while others consider that the refugees can negatively influence the well-being of the host countries. In the present paper we investigate the impact of the refugees' inflows on the economic growth and development of the EU countries. In order to reach this purpose, our arguments are based on a multidisciplinary analysis of the specialised literature and of the empirical investigations.*

Keywords: refugees; migration; Arab region; EU states; economic growth
JEL Classification: F22; J15; O15

Introduction

Nowadays, one of the major concerns of the EU leaders is how to cope with the large inflows of refugees that are coming from the Arab region, due to the prolonged conflicts and civil wars. Actually, compared to other parts of the world, the Arab region seems to be the most affected by conflicts, since they occurred in half of these countries, between 2009 and 2014 (UN ESCWA, 2014). Looking at the current dynamics of the conflicts from this region, it can easily be noticed that there are not only protracted but also they have reached global dimensions. In this context, Syria is one of the states with the most emigrants. It is followed by Afghanistan, due to the on-going violence, Eritrea, country facing lots of abuses and Kosovo, where the poverty determines people to look for new lives elsewhere.

According to the International Organization for Migration, between January and October 2015, more than 750,000 Arab people crossed Mediterranean to enter Europe, a number which is almost triple compared to the previous year. Looking at the EU statistics, one of the major fears is that most of these refugees have no intention to go back, since over 700,000 have already claimed asylum. The most popular destination for the refugees arriving in Europe is Germany, country that has received more than half of the total number of the asylum applications.

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The opinions regarding the impact of these refugees on the host countries are divided. While some EU leaders consider that this is a humanitarian crisis and the member states should act accordingly, others believe that these people are migrants and not refugees, since they want to go to the most developed EU countries, where they could have the best opportunities. In this case, the phenomenon is considered to be a challenge and a threat for the host states. While the first opinion belongs to the leaders of the Western EU countries, such as Germany, France or UK, the second one is embraced by the leaders of some Central and Eastern states of the EU, especially Hungary and Slovakia. In this context, the Hungary's prime minister argued that the great majority of the resettling people into Europe are not refugees but migrants, looking for a better life into the most developed states of the EU, such as Germany, Sweden, France, Italy, Austria or UK. This idea is also embraced by the Slovak prime minister who says that up to 95% of these people are economic migrants. Their status is very important because, according to the 1951 Refugee Convention and a series of EU laws, the European countries must offer protection to those asylum-seekers who can demonstrate that they are fleeing war or persecution. This obligation disappears in the case of the people looking to improve their future, even if they have left behind an extreme poverty.

From the economic perspective, the opinions are also divided. Some analysts see this large influx of refugees as an opportunity for the economic and social environment, because of the major demographic challenge faced by Europe: while the fertility rate has declined during the past decades, the life expectancy has improved by 12 years compared to 1950. Moreover, they argue that if it weren't for migration, the working age population would have already significantly declined in EU. However, other economists consider that the refugees can negatively influence the well-being of the host countries by generating disease outbreaks, food and land scarcity, wage competition, overburdened school and health care facilities, environmental degradation and increased criminality. Moreover, there are voices saying that the level of human capital of the refugees is, on average, much lower than that of the host countries, fact that will significantly influence the sustainable economic growth and development of the EU states.

Considering all these aspects, in the present paper we investigate the impact of the refugees' inflows on the economic growth and development of the EU countries. In order to reach this purpose, our arguments are based on a multidisciplinary analysis of the specialised literature and of the empirical investigations.

1. Socio-demographic trends in the EU states

The phenomenon of aging population is one of the major issues currently facing most of the developed countries, including the EU ones. According to the statistics, in Europe the percentage of the population of 60 years or older was about 21.8% in 2010 and the estimations made by United Nations (2011) indicate that in 2020 this proportion will be of 25.4%. Meanwhile, the fertility rate has decreased in many EU states during the last decades, being around 1.5 children per woman (Eurostat, 2014), generating a so-called “ageing at the bottom” phenomenon, visible in the population pyramid through a reduction at the base. Considering this aspect, it is not surprisingly why in some European states, such as Germany, the economy is creating jobs faster than the natives can fill in.

Moreover, the population of the European countries is currently facing a second major trend: the emergence of a new group - the "fourth age" ("the oldest of the elders", of over 80 years), which represents a high and growing proportion. If in 1975 they represented 1.8% of the total population, in 2010 they totalled 4.2% (United Nations, 2011). Comparing the statistics of 2013 with the ones of 1960, it can be seen a major difference regarding the proportion of the young and old people in the total population. If in 1960 there were about three young persons aged between 0 and 14 years for every individual aged 65 or over (Lanzieri, 2011), this ratio became one to one in 2013 (Eurostat, 2013).

Considering all these aspects, we may assume that if the EU socio-economic and institutional environment will remain the same, on long term, the demographic situation of the member states might worsen. Actually, the analysts have foreseen that, in the absence of the changes, the share of people aged 65 years or over in the total population will almost double, the number of people aged 80 years or over will almost triple until 2060 (Giannakouris, 2008). Under these circumstances, half of the population will be older than 47.9 years, which means that the age dependency ratio will significantly increase.

The ageing phenomenon and the decreasing number of the population of the EU states will lead to several negative socio-economic consequences. First of all, on long term, the pressure on the state budget will augment due to the increase of the public expenditure on pensions, social security and health services. This will mean a raise of the overall burden on the working population, who will pay higher taxes, which could create disincentives to work and disincentives for firms to invest, affecting the productivity and growth. Moreover, the growth rates will significantly diminish since the labour force will shrink.

Some economists that were looking for solutions to improve the demographic situation of the EU states concluded that one of the potential measures against the effects of ageing may be the immigration. The immigrants could increase not only the number of the population but also the share of the young age segments in the total population leading, on long term, to a more balanced age structure (Pollard, 1973; Espenshade *et al.*, 1982). However, in order to have such an impact on the population structure, the number of immigrants has to be very high (Feld, 2000; Saczuk, 2003).

2. The impact of migration on the European states: evidences from the past

Analysing the migration during the last decades in EU, it can be noticed that this phenomenon has intensified especially after 2004, when a new enlargement stage of the Union took place and 10 states became EU members. However, the migration did not occur only among the member states, but also between them and other countries. In this last case, we talk about immigrants coming especially from North Africa.

Up to now, the impact of the migrants on the European states was considered to be, in general, a positive one, reflected especially on the labour market. A study conducted by OECD (2012) showed that, between 2001 and 2011, the immigrants represented 70% of the increase in the workforce in Europe. Even though migration is not mainly driven by the workforce needs, it was noticed that the immigrants can be found both in the dynamic sectors of the economy and in the declining ones. According to OECD (2014), during the first decade of the XXIst century, the immigrants totalled 15% of the entries into the strongly growing occupations in Europe, such as those from the health-care system or from the Science, Technology, Engineering and Mathematics' fields. Meanwhile, the immigrants represented almost a quarter (24%) of the entries into the most strongly declining jobs in Europe, such as those from specific trades and crafts or machine operators and assemblers. In these fields, the immigrants respond to the labour market needs by accepting those jobs considered by the domestic workers unattractive from the monetary point of view or from the career perspectives.

Regarding the education level of the immigrants, some analysists, such as Cuaresma, Huber, Oberdabernig and Raggl (2015), consider that the immigrants from North Africa generally have a lower education compared to the individuals born in the EU countries. Analysing the stock of human capital of the immigrants that have entered the European labour market during the last 15 years, it was noticed that while one third are tertiary educated, another third has not even completed the upper-secondary education, even if most of them are more than 20 years old (Eurostat, 2015). In 2014, according to the data offered by Eurostat (2015), the EU states that have attracted the largest number of highly educated non-EU-born migrants were Ireland, Luxembourg and United Kingdom, with proportions of the tertiary education among the non-EU-born population of 64.0%, 53.2% and, respectively, 53.1%. Slovenia, Greece and Italy were in the opposite situation, having the lowest shares of tertiary educational attainment within the non-EU-born (10.0%, 11.9% and 12.1%). Meanwhile, the highest shares of the non-EU-born population having attained only pre-primary, primary and lower secondary education were registered in Italy, Greece, Spain and Belgium (Eurostat, 2015).

Regarding the fiscal impact of migration, a study conducted in 2013 by Liebig and Mo indicates that the impact of the cumulative waves of migration in the European OECD countries is rarely exceeding 0.5% of the GDP. The highest impact was noticed in Switzerland and Luxembourg, where immigrants have a net benefit of about 2% of the GDP. This situation could also be explained through the level of education. While the highly educated migrants contribute more through the taxes they pay than the individual benefits they receive, the lowest educated ones have a better fiscal position than the natives. However, these last cases are generated by the fact that the immigrants often receive lower wages than the natives and thus they contribute less.

Another country where immigration had a positive impact on the economy is United Kingdom. The migration inflows from 1997, 2004 and 2007 have substantially increased not only the number of the young persons but also the employment rate and, subsequently, the GDP of the UK. Meanwhile, the immigration did not have, as expected, negative impacts on the employment possibilities of the native-born persons. On contrary, they transmitted different skills and aptitudes to their non-immigrant colleagues, increasing in this way the competition in certain labour markets. The same consequences could also be found in Denmark, after the influx of the refugees from the end of the 1980s.

Considering the age of the immigrants, Gagnon (2014) has noticed that most of them belong to the younger age groups, fact that allows us to assume that they may reduce the dependency ratio and change the age pyramids of the receiving countries. This idea has largely been debated by Cuaresma, Huber, Oberdabernig and Raggl (2015) who concluded that the positive impact of the migrants' inflows on the age pyramid will be visible in the EU15 states (old Western European EU members, whose accession date is prior to 2004). Meanwhile, in the EU 13 (the countries that entered EU in 2004 or later) the ageing trends will accelerate. These assumptions are based on the fact that, between the EU adhesion moment and 2010, some states such as Bulgaria, Romania, Lithuania, Latvia, Estonia or Poland had more emigrants than immigrants. This fact has considerable diminished the number of population, especially in the youngest age segment.

3. Empirical evidences of the refugees' impact on various states of the world

A recent study published by Calderón-Mejía, Cantú-Bazaldú and Chaitani (2015) underlines the impact of the refugees' inflows on the economic growth of the host countries with the help of a neoclassical growth model, improved with two more elements: human capital and the influence of a neighbouring conflict or catastrophe that leads to the arrival of refugees. The data was collected for the period 1962-2012. The results of their study reflect the fact that the arrival of the refugees in a country influences the rate of economic growth through two main channels. First of all, it increases the growth rate of the labour force, generating, in some cases, the decrease in the growth rate of the income per capita. Secondly, the refugees could reduce the human capital stock, by bringing comparatively inferior set of skills or one that only acts as a substitute for that already available in the hosting country. Therefore, Calderón-Mejía, Cantú-Bazaldú and Chaitani (2015) conclude that in the short run the refugees have a negative impact on the economic growth. In the long run, they might have no measurable influence on growth.

During time, the specialized literature has included several studies that underlined the fact that the refugees negatively influence the socio-economic, militarily and political environment of a country, violating the human and institutional rights and threatening the territorial sovereignty. From the economic perspective, it is considered that the refugees may lead to a price increase and to a decrease of the wages. Evidences regarding this aspect are brought by Calderón-Mejía and Ibáñez (2009) who present the case of Colombia, country that confronted with a large influx of refugees, which have generated a fierce competition for jobs, with a detrimental effect on wages and employment opportunities.

The pressure from the labour market, felt especially by the most vulnerable groups, could have negative impact on the political stability and social cohesion, leading to internal conflicts. This situation could be exacerbated by other factors such as the formation of the armed groups and the spread of transnational terrorist networks.

The increasing movements from the past years of the Syrian and Iraqi displaced persons have increased the consumption of the basic goods and services in the hosting communities, particularly in Jordan and Lebanon. These two countries were already confronting with both economic problems, such as weak growth caused by insufficient employment creation, low investment, external imbalances, political and security issues. Therefore, the large influx of the refugees has amplified the scarcity of the resources, usage of the existing infrastructure and the socio-political pressure. A Lebanese politician has mentioned in November 2015 that his country is struggling to cope with more than one million refugees from Syria, which represents one quarter of the country's population. In an interview, he raised the alarm regarding the fact that Lebanon's major institutions could collapse because the country has been without a president for 17 months and the refugees' crisis amplifies this political tension (The Guardian, 2015).

A cross-national analysis of 154 states, conducted between 1970 and 2007 by Choi and Salehyan (2013), shows that countries with many refugees are more likely to experience both domestic and international terrorism. This conclusion implies that the states should find ways to adapt the number of people they receive to the possibilities of integrating them and proving safe and secure environments. Analysing the psychological dimension of the refugees, Wessells (2004) concludes that the difficult life conditions and the social injustice can lead the displaced people towards terrorism. The same idea has also been developed by Pickering (2004) who argued that the terrorist networks use the refugees in order to commit various terrorist attacks due to the fact that these displaced people are more vulnerable.

All these assumptions were used by some political leaders, especially from Poland, Latvia, Slovakia and Czech Republic, in order to link the nowadays Europe's refugee crisis to the terrorist attacks from 13th of November 2015, in Paris. Therefore, they urged for closing the Schengen border region and for limits on migrant movements, by reducing the refugees' quotas. Most of these leaders have already been sceptical of accepting refugees from the first place, arguing that the Muslim migrants could not be integrated into their societies and thus the risk of terrorist attacks could increase. After this incident from Paris, some countries, also from Western Europe (such as France, Belgium or Netherland) have significantly tightened the border security.

Conclusions

Considering all these aspects mentioned before we may conclude that the refugees' impact on the economic growth of the EU states can regarded from several points of view. *First of all*, from the point of view of the consequences on the level of the human capital of the host countries, we may assume that, even if some refugees are well educated or highly skilled, most of them are not. Significant differences between the educational performance of the children of natives and the children of immigrants/refugees can be noticed in some developed EU states, such as France, Germany or Finland. Moreover, unlike most of the highly skilled migrants, the refugees are not coming into the EU states because of a better job or a career opportunity. Actually, the future integration of these refugees into the host societies and labour markets cannot be foreseen. From this *second perspective*, some EU states can be more successful in integrating the immigrants, in general, and the refugees, in particular. For example, if we take the case of UK or Germany compared to Spain or Greece, where the unemployment rate is very high, we may assume that the refugees will be more likely to become employed into the first two states. Moreover, the difficult integration into the host social environment is also related to the different cultural and religious backgrounds of the refugees. Related to this aspect, it can be mentioned, *thirdly*, that the risk of generating internal conflicts or even terrorists attacks might increase in those countries that receive a larger number of refugees.

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EXPLORING THE FORMAL AND INFORMAL INSTITUTIONS AS A KEY TOOL FOR ENHANCING ECONOMIC RESILIENCE

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Abstract: *Despite the fact that there have been many institutional studies over the past two decades and the role of institutions in economic life is extremely high, we could state that modern economic theory of institutions is in its infancy. Institutions organize the relationship between people as well as determine and limit the set of alternatives in the economic behavior. This paper aims to investigate and to understand the impact that formal and informal institutions induce on the broader growth of economic resilience capacity and the development outcomes as well as to consider ways of prospect measuring of this institutional approach. Content analysis of fundamental research papers on the issue of resilience and institutional theories has been carried out. According to the result, we state that formal and informal institutions retain their backbone role, even under strong external influences. Also, the long-term differences in the functioning of economic systems are shaped by a very deep influence of institutions.*

Keywords: resilience; economic resilience; formal and informal institutions
JEL Classification: F6; O1

Introduction

During the last two decades, many state economies have undertaken extensive institutional changes and economic reforms such as privatizations, trade liberalization, financial and macroeconomic stabilization intended to make domestic markets more open, competitive and efficient (Castellacci, 2015; Pascariu and Tiganasu, 2011). The new competitive environment opens up new challenges and opportunities for different regions. For this purpose it is essential to assess the degree of those institutional reforming influence on economic resilience capacity. It is also important to investigate how this process of institutional change affects the economic resilience capacity and how this varies across different economies.

Economic modernization is closely related to the implementation of a number of institutional reforms aimed at the transition to an innovative model of development and improving the quality of life of the entire population tending to reach appropriate resilience capacity (Handmer and Dovers, 1996). One element of the reform is the creation of institutions like the organizational and economic structures that facilitate the allocation of resources in favor of the project to create a new growth

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potential through the active involvement of investment in social and physical infrastructure, developing industry and human capital, as well as through the creation of new technologies and promoting competitiveness.

Researchers do not precisely define the respective roles of formal and informal institutions in resilience processes. Institutions are seen in very broad terms as relating to certain political or economic rules of behavior (Hutter and Kuhlicke, 2013). Their basic thesis is that inequitable economies develop exploitative and inefficient institutions. However, the pace of the transition has been uneven with some regions continuing to be dominated by the “old” institutions while others have almost fully transited to the new, market-oriented institutions.

This paper aims to provide a theoretical justification of the role of institutional approach as a key tool for enhancing economic resilience capacity.

1. Methodology

This study is based on qualitative research methods to address the research questions and objectives. Depending on these research questions the methods of literature review, content analysis and comparative analysis will be used. Different methods will allow the different research objectives and questions to be fully explored.

2. Formal and informal institutions

Institutions are a set of man-formal and informal rules of acting as a constraint for the economic agents, as well as appropriate mechanisms for monitoring their observance and protection. Modern economic theory of institutions is in its infancy, although there have been many studies over the past two decades. In 1993, Douglass North was awarded the Nobel Prize in Economics as one of the pioneers of new institutional economics.

2.1. Definition of institution

The importance of any institute is to guide individual behavior in the right direction by fixing norms of behavior of economic agents, as well as restrictions on the use of resources and options for individuals to use them. Institution is quite debatable concept. Scientists did not give a clear statement what an institution is. Moreover, in economic terms, the institutions are defined in different ways.

Table 1 – Definition of institution

Author	Definition
Thorstein Veblen	Habitual methods of carrying on the life process of the community in contact with the material environment in which it lives (Veblen and Howells, 1965)
Wesley Mitchell	Models and standards of behavior rooted in customary ways of acting and thinking (Mitchell, 1914)
Gustav von Schmoller	The specific order of living together, which serves a specific purpose and has potential self-evolution (Schmoller, 1967)
Douglass Cecil North	Formal rules (constitutions, laws, property rights) and informal restraints (sanctions, taboos, customs, traditions, codes of conduct), which usually contribute to the perpetuation of order and safety within a market or society (North, 1990)
Geoffrey Hodgson	Systems of established and prevalent social rules that structure social interactions (Hodgson, 2006)

To summarize, we state that institution is a basic concept of the new institutional economics, and an integral part of the general economic theory. In general, institutions can be defined as a set of formal and informal rules, including mechanisms to ensure their observance. We note that the most common view on the institutions in the economy connected with limitation of certain macro and micro-economic development parameters. Limitation of behavior of economic agents by institutions is a direct consequence of the new institutional approach. At the present stage, the institutions should be defined not in terms of the neoclassical "efficiency", but in terms of time and value categories. Only coincidence of parameters of time and the availability of the necessary social-economic environment should determine the decision on establishment of institution.

2.2. Formal and informal institutions

Organization theory and economic sociology, in turn, have provided a deep examination of the role of institutions such as social norms, trust, routines, and political processes (Zenger *et al.*, 2000). According to economic theory institutions can be divided into formal and informal ones, the dividing criterion being the degree of formalization of existing bonds within them, interactions and relationships.

1. Formal institutions are institutions that receive legislative framework, supported by specially authorized persons (judicial authorities). They are officially described in documents and are applied to all individuals (citizens). It is applied to the property, labor, management authority. Formal

institutions are often created in order to serve the interests of those who control the institutional changes in the economy. The pursuit for self-interest for one could have a negative effect for others.

2. Informal institutions are the ethical conventions and ethical codes of conduct (traditions, customs and habits). Their functioning depends on the availability of social sanctions and formed by culture. These rules apply to limited socio - homogeneous groups. Informal rules regulate power, property and labor. Informal institutions form a sort of underwater part of an iceberg. They are spontaneously formed, without anyone's conscious intention, as a by-product of the interaction of many people, pursuing their own interests.

Formal institutions can quickly change, whereas informal change slowly and gradually. And the fact is that formation of institution is a long and complex, and continuous process caused by the development of society.

3. Role of institutions in economic resilience

Most of the scientific literature refers to resilience as the ability of any system to recover from an external shock or to absorb against downturns (Briguglio *et al.*, 2009; Rose and Krausmann, 2013; Brock et al., 2002; Gunderson and Holling, 2002).

Thereby, resilience capacity includes the ability to deal with external factors as well as to reduce vulnerability, and one of its main tasks is to minimize losses and, as a result, to ensure economic recovery as soon as possible.

Economic resilience means not only preserving the positive level of its economic performance, but also includes a development which manifests in the economic growth displayed by aggregate indicators of economic and financial development of the system. In order to characterize the economic growth using both general and particular indicators and definitions is preferable.

We state that the economic resilience can be defined as a state of the system in which its characterizing parameters (financial, operational, organizational or any others) tend to make the system “economically resilient” and, at the same time, capable of harmonic development and improvement at any changes of the external environment

One of the key factors in maintaining economic resilience is the quality of the institutions involved in a particular economic system. To better understand the phenomenon it is necessary to clearly understand the roles and functions performed by institutions. Melikhov (2011) identifies the following functions:

- *practical function* is manifested in the concretization of the theoretical conclusions and checking their authenticity through economic activity, the search for effective forms and methods of economic management, the establishment of an adequate mechanism for management at all levels of the economy;

- *reduction of transaction costs* is an important element in the analysis of economic institutions. Its components are: the costs of information search and partners, the cost of negotiation and preparation of contracts, the costs of monitoring and enforcement of contracts. There are a number of rather complex definitions of transaction costs, which are based on the fact that every transaction is an exchange of property rights;

- *informational function* of economic institutions refers to the accumulation, selection and transfer of information in space and time. Fulfilling information function, economic institutions ensure the continuity of social reproduction. If one of the actors knows how it should behave in certain circumstances, and the other does not, coordination may be compromised as a result of interaction of the participants;

- *regulatory function* refers to the fact that economic institutions direct the activities of economic entities in the direction most useful for the economy as a whole, and try to suspend the activities of entities that brings negative consequences. Media institutions as the rules and regulations govern the legal relations in the society and thus create an atmosphere of security and confidence in the assurance of human rights and freedoms.

Thus, formal and informal institutions are a relatively stable set of complex economic, legal, social and ethical relations, for a long time realized at the surface of social phenomena in the activities of institutional organizations and private individuals. Institutions incorporate a complex web of specific relationships, resulting in socio-economic system in the form of the objective and subjective aspects seeking to ensure economic resilience capacity.

4. Indexing resilience

Earlier studies of economic resilience centered on characterizing the idea of the phenomenon and applying of case studies. In recent years, the trend has changed towards the identification of indicators and establishment of full holistic index.

It should be noticed that the mechanism of indexing and monitoring the economic resilience of the socio-economic system acts as a tool to determine how to enhance economic resilience capacity and to achieve the desired state in the long term. The indices are released each year and allow us to analyze the current situation, based on the specifics of each of the indices, which include a certain number of indicators. Resilience indices used in the scientific community allow us to conclude that the institutional component is fundamental, being included in all of them. Among the institutional indicators presented in main resilience indices we highlighted the following, such as institutional environment, competitiveness, doing business, corruption perception, and governance (See Table 2).

Table 2 – Resilience Indices

Year	Index	Author(s)	Indicators
2009	Economic Resilience Index	Briguglio, L., Cordina, G., Farrugia, N. and Vella, S.	Macroeconomic stability, Microeconomic market efficiency, Social development, Good governance
2009	Index of Economic Resilience	EDAW and AECOM	Sectoral Mix; The Workforce; Enterprise; Labour Market; Assets and Infrastructure; Scale and Proximity.
2010	Disaster Resilience Index	Cutter, Burton and Emrich	Social Resilience, Economic Resilience, Institutional Resilience, Infrastructure Resilience, Community Capital,
2011	Community Resilience Index	Norris, F.H.	Diversity of Economic Resources, Equity of Resource, Distribution
2012	Community Resilience Index	Ainuddin, S. and Routray, J.	Economic resilience, Social resilience and Institutional resilience
2014	City Resilience Index	Rockefeller Foundation	Four categories: the health and wellbeing of individuals (people); infrastructure & environment (place); economy and society (organization); and, finally, leadership and strategy (knowledge).
2015	Resilience Index	FM Global	Economic, Risk Quality, Supply Chain

Considering the fact that the institutional part is the basic component in all indices, it is possible the implementation and further development of certain institutional index of economic resilience capacity. This will widen understanding of the variability of the phenomenon and will be both guide point and benchmark for countries that are active in the process of institutional reforming. This institutional index should consider and include the specificity of different countries and regions for a more detailed institutional indexing. Since the intentions to enhance economic resilience capacity are the result of findings reached by comparing the level of the planned strategic development, this index will try to present possibility of providing more objective conclusions and recommendations for further development in the long term.

5. Methodological aspect for assessing institutional component

Concept of searching the institutional causes of economic resilience requires separate consideration of such phenomena as "institutional factors" and "the parameters of the institutional environment." In this approach, the system of institutional factors of economic resilience of the particular country or region is influenced by a set of formal and informal rules of acting in different situations, as well as the economic interests of powerful groups. The system includes factors such as bureaucracy, business coalitions, civil society, democracy, the judiciary, corruption and informational openness in society.

Tereshchenko (2012) argues, that within the framework of study the problems of measuring the relationship of institutional quality and the level of economic development we can use the following methods:

- inclusion of institutional parameters in the analysis of economic resilience;
- econometric analysis;
- method of quasi-natural experiment.

In order to analyze each method, we must consider the advantages and disadvantages of each, in order to maximize the benefits of their use in further studies (See Table 3).

Table 3 – Methods of assessment of institutional component of the economic resilience

Method of assessment	Advantages	Disadvantages
inclusion of institutional parameters in the analysis of economic resilience	- offers to consider the impact of innovation and institutional components, including human capital and administrative resources, ratio of public goods and the total value of private equity, etc.	- considers the factors of economic resilience (labor, capital and technical progress) and institutional factors on one methodological level
econometric analysis	- involves complex statistical methods (simple correlation regression analysis, method of instrumental variables) - detects direct close statistical relationship between the indicator parameters of institutional environment and process indicators	- problems of any empirical research related to the problems of sampling and measurement of institutions; - limited econometric studies, which is linked to the fact that such studies only reflect statistical dependence between phenomena and processes

	of economic resilience in the presence of valid theoretical model - allow to make comprehensive conclusions that could make a significant contribution the development of the institutional hypothesis	- problem of choice of instrumental variables, since it is usually carried out subjective, intuitive.
method of quasi-natural experiment	- clarify what factors have greater impact on the economic resilience	- depends on subjective considerations and complexity of finding suitable illustrative examples

As we can see in Table 3, each of the methods is different and includes certain risks. Despite this, the relationship of these methods of assessment and measuring enables us to consider comprehensively the whole process and thus present the most realistic picture of the institutional component of economic resilience capacity.

Conclusions

To summarize, we state that institutions play an essential role in the development of the economic system. They form the "institutional framework" of the economic system. Institution is a basic concept of the new institutional economics, and an integral part of the general economic theory and economic resilience capacity in particular.

Despite existing methodology for assessing the quality of institutions, the issue of quantifying this phenomena in the framework of economic resilience capacity remains open. The importance of the institution is to guide individual behavior in the right direction by fixing norms of behavior of economic agents, as well as restrictions on the use of resources and options for individuals to use them.

Indexing of economic resilience capacity is one of the main trends in modern economic theory. The possibility to develop an economic resilience index based on institutional parameters as key indicators seems a very good choice taking into account the importance of formal and informal institutions in social-economic environment. Not only that formal and informal institutions retain their backbone role, even under strong external influences, but also they are deeply shaping long-term differences in the functioning of economic systems.

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A NEW APPROACH TO FINANCIAL REGULATION AT THE EUROPEAN LEVEL

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Abstract: *With the recent financial and economic crisis onset, a fragility of the financial system became apparent, under the form of a series of vulnerabilities and failures with a strong destabilizing impact on the economy. In this context, a new approach to financial stability has outlined itself, pleading for a more extensive financial regulation and macro-prudential supervision, complementary to the micro-prudential one. The objectives of this article are to highlight the context and need for a new financial regulatory framework and underline the main problems of the banking system the new European regulations addresses.*

Keywords: financial regulation; financial stability; banking system
JEL Classification: G00; K20

Introduction

With the onset of a major economic crisis, efforts focus particularly on developing solutions for treating its consequences. But more than that, it is extremely important to understand the causes and mechanisms creating triggers and therefore, solutions to prevent the accumulation of economic and financial vulnerabilities potentially highly destabilizing.

The recent crisis was mainly triggered by vulnerabilities and failures of the financial system. In the pre-crisis period the global financial system has developed into a fast but unsustainable rhythm, becoming increasingly interconnected and increasing the systemic risk. In this context the need for a paradigm shift in terms of financial regulation and risk management emerged. It was therefore argued for a more stringent and extended financial regulation for completing the micro-prudential objectives with the macro-prudential ones.

An important part of regulations or initiatives for financial regulation aimed at the banking system as a central element of the financial system, covering four major areas: lower the risk of bank failures, reducing systemic risk and pro-cyclicality of the system, the creation of an effective resolution and management of bank bankruptcy and mitigation of the risks of banking institutions of *too big to fail* type.

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1. Context, need and objectives of the new financial regulatory framework

If in the 1960s, according to Keynesian theory, the main goal pursued was best represented by a compromise between inflation and unemployment, with the second as a priority in the 1980s, when inflation reached very high levels, there was a change of direction, and fighting inflation became a priority. Currently, we are witnessing a new financial paradigm shift, the need for a new approach to macroeconomic objective represented by financial stability being a priority. The extent of the recent economic crisis and its effects still persisting, showed that monetary stability and the micro-prudential supervision does not automatically lead to a stability of the financial system.

The financial system has an extremely important role to the real economy, this ensuring financing investment opportunities, contributing to the accumulation of capital and improving the distribution of risk in the economy. Also, the contribution of the financial system on economic growth must not be neglected. A healthy functioning of the financial system will contribute to sustainable economic growth, but its poor operation will lead to an artificial economic growth and financial vulnerabilities and imbalances accumulated will inevitably create the conditions for triggering a financial and/or economic crisis.

In the previous years before the onset of the recent global financial crisis, the financial system developed into a ferocious pace, but in an unsustainable way, significantly outpacing developments in the real economy. The risk of an imminent financial collapse, many economies faced once the crisis initiated, has highlighted the urgent need of thinking of macro-prudential measures that ensure the efficient functioning of the financial system, to effectively manage and prevent buildup of excesses and imbalances, therefore to reduce systemic risk and ensure financial stability.

The lack of concrete measures to address the issue of financial stability, pre-crisis, was probably based on the belief that economic and social consequences of financial instability can be managed and removed later. However, recent economic and financial crisis has highlighted the need to create a framework for action and instruments in order to mitigate systemic financial vulnerabilities, and not simply to manage or eliminate their consequences.

More and more views converge on the fact that without abandoning the objective of monetary stability, financial stability should be a central objective, alongside economic growth and labor, in order to avoid future financial and macroeconomic imbalances, extremely difficult or even impossible to absorb, such as the recent ones. So far, at the level of macroeconomic policies and new financial regulation framework the term *"financial stability"* has become, justifiably, a leitmotif.

The new approach to the financial stability pleads for the completion of micro- prudential measures with macro-prudential ones and the expansion of the scope and instruments for the monetary authorities to dispose of, as pro-cyclical capital requirements, compulsory reserves and dynamic provisioning. It also requires a closer and more effective cooperation between central banks and supervisory authorities (Larosière, 2009, p.51). The new function of the monetary and prudential supervisory authorities constitutes a completion of the monetary policy and micro-prudential supervision exercised by central banks.

In retrospect, during the period before the onset of the recent economic crisis, namely the period between the late 1980s and 2007, known as the "great moderation", central banks based their monetary policy strategies on the assumption that the monetary stability leads automatically to financial stability, accordingly, both contributing to sustainable economic growth. The "great moderation" was a period of strong economic optimism, during which many economists considered that a fundamental problem of macroeconomics, the prevention of the great depressions, had been resolved (Lucas, 2003, p.1). In contrast to previous decades, the "great moderation" was characterized by low (2%) and relatively stable inflation rate globally. However, it seems that the objective of monetary stability does not automatically lead to financial stability.

With the economic crisis the vision of the effects of monetary policies and their relationships and financial stability as a whole has been called into question, outlining the growing number of opinions that argue that the situation of calm that characterized the period before the crisis had destabilizing effects on the financial system and the economy or that monetary stabilization policies can foster the development of speculative bubbles and other financial imbalances.

According to the new vision, the monetary stability between 1990-2000 was favorable to the accumulation of vulnerabilities that have jeopardized the financial stability by encouraging excessive risk taking by banks and businesses, and decision makers responsible for economic policy and authorities responsible for regulating prudential measures have underestimated the systemic risk (Blanchard *et al.*, 2010, p.11). In these years, the companies based their expectations on a low level of inflation, which caused excessive manifestation of a sense of economic security and confidence-taking resulted in the acceptance of increasing levels of risk and unsustainable debt contracting.

The situation presented above was analyzed by H. Minsky, in the 1990s, highlighting the so-called "paradox of tranquility" (Minsky, 2011, p. 417). According to the author, a financial crisis has its origins precisely in economically favorable times when businesses are stimulated by low interest rates and economic growth to borrow. This is somehow rational in terms of individuals, but looking ahead it is irrational because debt gets to be excessive and contagious. When there is a tightening of monetary policy, raising interest rates make debt previously contracted become unsustainable. The 2007 *subprimes* credit crisis can be included in this category of events.

An important factor in the buildup of financial vulnerabilities is the credit evolution, which, after a certain level, favors the development of large scale speculative operations. Relevant here are banking and currency crises manifested in the early 80s in several countries with emerging economies, stock crises manifested between 1987-2000 in countries with developed economies, the systemic crisis in Japan in the 80s, the *subprimes* crisis in 2000, when there was a simultaneous excessive growth of stock market and real estate assets and the credit market .

Given the influence of excessive credit growth on the creation and development of speculative bubbles, and therefore the negative impact on financial stability, a number of recommendations have been proposed, that credit developments be subject to more rigorous supervision.

Along with the excessive credit growth in the period before the economic crisis, there was a rapid and unsustainable growth of financial securitization, banks resorting more and more to "financial market" to the detriment of funding based on attracted bank deposits (European Central Bank, 2011, p.7). The securitization diminishes its traditional function of redistribution of liquidity that loans should meet and produces negative effects regarding the assessment and risk-taking by banks, because this type of operation allows banks to increase the level of lending without completely assuming all costs related to initiated loans.

As a consequence of securitization, the financial intermediation chain has become more complex and longer. So, the traditional banking sector distributes the initiated loans at the beginning of the intermediation chain to the unregulated parallel bank sector, the so-called *shadow banking*.

Securitization produces negative effects regarding the assessment and risk-taking by banks, because this type of operation allows banks to increase lending without completely assuming all the costs related to initiated loans. Banks artificially relax lending conditions because securitization transactions allow the transfer of risk assumed by loans to other financial agents. Given these vulnerabilities, the new financial regulatory initiatives also should concern the creation of a supervisory framework for the shadow banking sector.

Also, another important issue that concerns the financial sector is the systemic risk. Although the systemic risk is not an new economic issue as systemic crisis manifested throughout the whole economic history, an amplification of the systemic risk can be identified starting with the 70s, which marked the beginning of a period of intensification of financial globalization, basically manifested by the increasing of the complexity of operations and financial instruments, the interconnection of financial markets and the development of transnational financial institutions and large banking groups.

Recent systemic financial crisis caused a significant number of initiatives regarding the improvement of prudential mechanism at the European level. European legislative proposals have focused on countercyclical regulations to be applied by the banking supervisory authorities and on measures meant to reduce the negative economic consequences caused by moral hazard or the size and complexity of some too large financial institutions (*too big to fail* issue).

The recent financial crisis highlighted the influence of large systemic financial institutions and, in particular, the failure of such institutions regarding the financial stability on the whole. Faced with the imminent risk of bankruptcy of some major financial institutions, governments and central banks may adopt a neutral position or intervene to save the concerned institutions. None of these options is risk free. In the first case, the failure of systemically important institutions can trigger a financial and economic meltdown, while the second case involves losses suffered by banks to be paid by taxpayers, instead of shareholders and creditors, which, moreover, leads to further increase the moral hazard.

The proposals for prudential regulation at European level came in logic continuation of the work of the Basel Committee (Basel III). Thus, the focus has been on expanding qualitative and quantitative capital requirements on the limitation of the financial leverage and reducing the liquidity risk (Basel Committee on Banking Supervision, 2010). If we consider the liquidity risk, the recent crisis has revealed an insufficient approach to this issue. Also, before the crisis there was an underestimation of the destabilizing impact of maturity mismatches and of the dominating appeal to short-term funding to the detriment of long-term financing arrangements. The recent economic crisis initially manifested itself through a liquidity crisis. This situation has threatened the stability of banking systems and led central banks, in their capacity as lender of last resort, to carry out massive injections of liquidity into the system.

Another reform aimed at creating an European financial supervision system composed of national and European authorities responsible for micro- and macro-prudential supervision. The newly created European authorities with responsibilities for micro- and macro-prudential supervision are: the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA).

2. Reform of the banking sector at European Union level

The recent financial and economic crisis has highlighted a number of failures and vulnerabilities of the banking system, with considerable negative consequences on financial and economic stability as a whole. In response to this situation, new initiatives regarding the financial regulation have targeted four major directions: decrease bank failures risk, reduce systemic risk and the pro-cyclicality of the system, effective resolution and management of cases of bankruptcy and mitigation of the risks posed by *too big to fail* institutions.

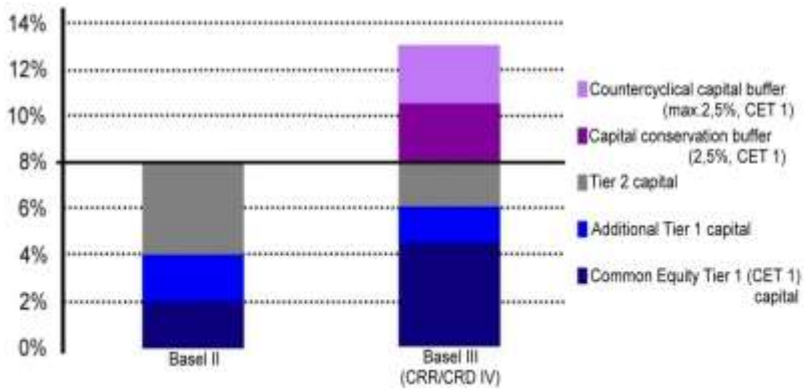
In terms of ensuring a greater stability and resilience of the banking institutions during various economic and financial shocks, new financial rules provide a qualitative and quantitative improvement of standards with respect to some indicators, such as capital requirements, liquidity and leverage.

The establishment and fulfillment of minimum capital requirements have a major role at the micro-prudential level, creating high immunity for banks to financial shocks, but also at the macro – prudential level, significantly reducing instability and contagion risk in the financial system, with obvious effects on the entire economy.

The serious financial problems that most banks were faced during the economic crisis showed that banks did not have enough capital to allow absorption of losses, a reassessment of regulatory capital requirements being necessary (Carmasi and Micossi, 2012, p. 8). Also, earlier minimum capital requirements proved the limits regarding the ability to provide useful information on the fragility of the financial situation of a bank so that effective corrective action can be taken to avoid worsening the situation.

Following the economic and financial crisis of 2008, which proved inadequate earlier financial regulations, a new Basel Accord (Basel III) was agreed in 2010. According to this new agreement, and at the level of EU legislation, improvements in terms of capital requirements were produced. The Directive on minimum capital requirements (CRD IV, adopted in 2013), brings quantitative changes by introducing two types of additional capital requirements represented by the capital conservation buffer and countercyclical capital buffer so, the overall level of capital requirements, can reach, in certain economic and financial conditions, a 13 % of the risk weighted assets, but also qualitative changes by increasing the minimum level of Tier 1 capital from 2% to 4.5 % (see Figure 1).

Figure 1 - New CRD IV capital requirements compared to previous standards



European Commission, May 2014, *Economic Review of the Financial Regulation Agenda*, p.59

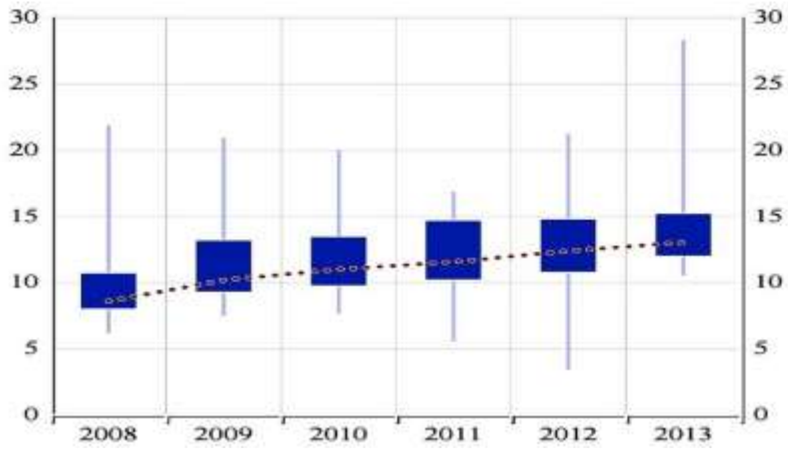
Yet still, the calculation formula for capital requirements remains a complex one, by keeping the benchmark risk weighted assets. Although the establishing of the level of capital according to the risk assets is considered to have the advantage of discouraging the taking of very large risks, this has not been demonstrated by the recent economic history.

In terms of reducing the pro-cyclicality of the financial system, the new legislative framework introduces two additional capital requirements, to be adjusted according to specific economic conditions. The first indicator is the capital conservation buffer which requires banks to create additional funds that can be used under conditions of economic and financial stress, and the limits of the bumper can vary within a range that reaches the maximum value of 2.5% depending on the business cycle evolution.

The second indicator is the countercyclical capital buffer which enables national competent authorities to require banks to increase capital buffers above the minimum requirements of Tier 1capital (common equity Tier 1) consisting of common shares, retained earnings and reserves up to 2.5% or even more under certain conditions, in times of increased lending. This provision is to be implemented by the competent authorities according to specific national conditions and circumstances. The stated aim of this measure is to prevent risks to the banking system posed by excessive and unsustainable credit growth.

Given the relatively recent entry (2013) of the legislative package CRD IV, which regulates matters concerning capital requirements, and gradual implementation of new regulations, until the beginning of 2019, it is still early to assess the effects of the new measures. However, we can see progress in terms of improving bank capital levels for some European banks, even if some still need significant adjustments to balance sheets (see Figure 2).

Figure 2.Recent improvements in bank' capital ratios in euro area



Source: ECB (European Central Bank), October 2014, *Banking Structures Report*, p. 25

To enhance the resilience of banks, especially in a situation of economic crisis, capital requirements are not sufficient to ensure adequate solvency and ability to absorb unexpected losses of the bank, but a strong liquidity base is also important. A bank needs, complementary to other elements, a strong liquidity position and efficient management of cash flows in order to cope with a crisis in the financial market.

One of the vulnerabilities demonstrated by financial institutions during the recent crisis has been the insufficiency of liquid instruments as cash or assets that can be quickly and with minimum costs turned into capital. A feature of banks consists in the frequent mismatch between short-term funding (deposits or funding through interbank loans) and long-term investments (bank loans). Therefore, banks are inherently unstable and vulnerable to crises of confidence in the financial market, resulting in massive cash withdrawals by depositors or complete and immediate refund applications from creditors in the short term. In these circumstances, when the economic crisis outburts, many banks would have failed without the support provided by central banks and interventions through state financial aid .

Even with massive injections of liquidity into the system, the liquidity crisis persisted.

Within the European Union, regulating liquidity before the crisis was not uniform, some states having implemented some quantitative standards for liquidity, while others not. Tools such as deposit guarantee schemes and lenders of last resort, accounted solutions for reducing the risk of massive withdrawals of liquidity. Basel III introduces a number of international standards regarding bank liquidity. Setting standards and liquidity requirements would have some effects (by increasing liquidity reserves and lowering the maturity mismatch) as the reduction of excessive interconnection inside the financial system and the mitigation of systemic liquidity risk. As concrete solutions to improve the liquidity position of banks in the future two liquidity ratios were introduced: LCR - Liquidity Coverage Ratio and NSFR - Net Stable Funding Ratio.

In addition to capital and liquidity requirements, new regulations introduce the financial leverage as an additional indicator of bank capital adequacy. Financial Leverage is basically the ratio of own funds held by a bank and its total assets and shows the extent to which a bank is prepared to meet its financial obligations in the long term. Thus, reducing excessive leverage is required to maintain an optimal level of solvency of banks.

Under the European law, the financial leverage is addressed as a complementary instrument to capital requirements for the strengthening of the prudential regulatory framework. The new requirements regarding financial leverage aim at preventing unsustainable debt accumulation and its negative effects on the stability of the banking system. It is intended that, unlike the necessary capital requirements, which are set depending on the riskiness of bank assets, the leverage effect should not involve risk assessments, but be based on accounting data, without further adjustments. From this point of view, the new regulations on leverage would represent an additional measure that can diminish vulnerabilities posed by risk based models as possible manipulations thereof.

While important steps were taken towards a new legislative framework in order to enhance the stability of the financial system and to prevent future major failures of this system with a destabilizing effect on the entire economy, the risk of failure for certain financial institutions will still exist. It is important to develop a concrete framework for recovery as well as resolution for banks, so as to minimize the impact of a failing financial institution on the real economy and public finances.

The need for new approaches to bank resolution was imposed by the recent economic crisis, which highlighted the inability of the competent authorities to identify in due time the fragility of some banking institutions and to manage in a coherent and efficient way any bank failure. In conditions of economic crisis and the risk of collapse of the banking system, due to a large number of bank failures, governments were forced to find a compromise between the decision to save the financial system and protect taxpayers' money. Any of these decisions involve significant costs. The recent economic crisis, maintaining a minimum level of stability of the financial system and avoid an economic collapse were considered priorities, even if this decision had a negative impact on European public finances. Financial support offered to financial institutions, especially banks through state aid was of 1.5 trillion euros.

At the European level the issue of bank recovery and resolution is regulated by a *Directive for a framework for the recovery and resolution of credit institutions and investment firms* (BRRD, adopted in 2014 and entered into force since January 2015). This Directive establishes a common framework of rules that allow the competent authorities to intervene preventively to restore the viability of a financial institution if it faces financial difficulties and to manage the failure of a bank in a consistent manner, avoiding the disturbance of the economy and the use of public funds while protecting depositors against losses.

Regarding the costs of a bank undergoing a process of recovery or resolution, the new regulation aims them to be borne primarily by the shareholders and creditors of the bank, following the internal recapitalization (bail-in) and, subsequently, financed from resolution funds.

Measures to strengthen the solvency of banking institutions by imposing new capital requirements and liquidity as part of the legislative package CRR/CRD IV measures on the recovery and resolution of the bank, as part of the directive BRR aims at reducing the likelihood of bank failures and the impact these could have on the financial system and the economy. However, these measures are not sufficient to solve the problem of systemically important financial institutions and eliminate risks that these institutions pose to the financial and economic stability. Systemically important financial institutions represent large banking groups that are universal banks, which usually combine commercial banking and investment banking activities within a single entity or a group of interconnected entities.

According to the rules of market economy, any company must meet certain standards of efficiency and competitiveness required by the market in order to exist and function in an economy. Failure to comply with these standards leads inevitably to the exit from the market / bankruptcy of the institution, without a major impact on the sector in which they operate or the whole economy. Due to the mechanism of self-regulation of markets, resources and factors of production available from the bankruptcy of an enterprise will be directed to other areas to ensure their efficient use. But these laws are not always applied to institutions in the banking system. This mechanism is justified by the complex interrelationships and connections in the financial system through which the bankruptcy of a single large banking institution can destabilize the entire system. Such arguments were at the basis of the decisions of many states to grant substantial financial support to those banks considered too big to be allowed to fail. Major banking groups benefited from an important part of the sums granted by governments and central banks as financial openwork state.

Since the 1970s, complementary to the trend of deregulation of financial markets, a relaxation of restrictions on the activities undertaken by banks took place. There was a broad consensus that the diversification of activities and financial services offered by banks produce significant economic positive effects and contribute to sustained economic growth globally. The financial risks associated to the rapid universal bank expansion were underestimated, considering that the market discipline, the diversification of activities and financial services, and innovations in risk management are effective safeguards against such risks.

The economic crisis has forced a reevaluation of the ratio between costs and benefits of universal banks, through their involvement in proprietary trading activities and other activities on the securities market. In the period preceding the crisis, most banks have redirected much of the resources to trading portfolios due to reduced financing costs. The amplification of the complexity of banks deteriorated the market discipline and the increase of interconnections determined the amplification of the systemic risk and contagion risk at the level of the entire financial system. Imposition of separation of certain banking activities is deemed necessary to mitigate the above risks, but also to prevent future situations where bank losses are supported with public money.

This type of reforms is not an absolute novelty, Glass-Steagall Act in the USA, represents a precedent in this regard. This law provided clear separation of investment banks from savings banks but was repealed in 1999. But for most countries, especially European ones, such restrictions on universal banks represent a novelty.

The aim of structural reforms of the banking system is to delineate certain financial activities deemed important for the real economy so that it is possible to protect them against risk arising from financial activities with a high degree of risk. An important issue raised by this type of regulation is to determine the boundary between different banking activities. In principle, this limit is drawn roughly between activities considered "commercial" and those considered "investment" in order to restrict the universal bank model.

In Europe, the structural reform of the banking system, which is still in the co-legislative process, is based on the Liikanen report. This report concludes that for banks whose trading activities on own account or other activities with high risk have a very high share of total activities, a separation of this category of activities by creating a separate legal entity within the banking group is a necessity. (Liikanen, 2012, p.99).

A proposal of European legislation on structural reform of the banking system provides a wide enough area of application, at least compared to other initiatives in this area (eg. Volcker Rule, Vickers Reform) because it prohibits both trading activities and those of market making, but it is less restrictive because it allows this category of activities to coexist with other activities within the same group, if done in separate subsidiaries. In terms of limiting the risk of contagion in the group, the proposal provides that subsidiaries comply with the requirements of individual capital and liquidity, and the transactions between these entities take place under market conditions. In the co-legislative process it is possible that this reform undergo a series of changes.

Conclusions

Macroeconomic and financial imbalances arising from the unhealthy functioning of the international financial system, and also the serious implications of the recent global crisis imposed the necessity of a new approach on financial regulation and supervision. At the European level, in line with international trends, a series of draft laws in the financial and banking sector in order to enhance the resilience of banking institutions to mitigate and better manage systemic risk and therefore to avoid accumulation of imbalances and of excesses in the system to be manifested later by a severe financial and economic crisis have been initiated.

New initiatives to regulate the banking system at the European level, targeted four major directions: risk decrease of bank failures, mitigation of systemic risk and pro-cyclicality of the system, the creation of an effective resolution framework and management of cases of bank failure and the diminishing of the risks that *too big to fail* institutions assume.

However, financial regulation, in order to mitigate pro-cyclicality and instability of the financial system should target not only the traditional banking system. It also requires an expansion of the regulatory framework to the increasingly broader *shadow banking sector*, which previously was not subject to regulation and prudential supervision.

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