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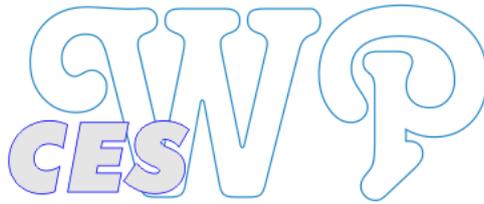
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## THE INFLUENCE OF THE CONNECTIONS OF ROMANIAN NON-LISTED FIRMS TO TAX HAVENS ON THEIR PROFITABILITY

Mihai-Bogdan AFRASINEI\*  
Iuliana Eugenia GEORGESCU\*\*  
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**Abstract:** *The offshore entities have become one of the most efficient solutions for tax avoidance and are used by taxpayers almost all around the world. This paper investigates the influence of the connections (via subsidiaries or shareholders) of Romanian non-listed firms to tax havens on their profitability and effective tax rate. In this regard, we used a sample of 7,167 Romanian firms (3,370 with connections to tax havens and 3,797 without tax havens connections). For statistical analysis, we used the simple and multiple linear regression methods with dummy variables. Results have shown that the presence of Romanian non-listed firms in tax havens significantly influences their profitability and effective tax rate. The firms with connections to tax havens have a return on equity ratio higher, a return on assets ratio lower, a gross profit margin ratio lower, a total assets turnover ratio higher and an effective tax rate lower than companies without connections to such jurisdictions.*

**Keywords:** tax havens; offshore companies; tax planning; tax optimization; tax avoidance; effective tax rate

**JEL Classification:** F21; F23; M40

### Introduction

Considering that tax rates differ from one jurisdiction to another, companies (especially multinationals) have the opportunity to reduce their tax expenses (Desai *et al.*, 2006; Dharmapala and Riedel, 2013; Fuest *et al.*, 2013). Thus, many of them move their headquarters or open subsidiaries in other countries or territories with a more favorable tax regime and shift their taxable profit towards these jurisdictions (Sikka and Willmott, 2010; Johannesen, 2012; Kim and Li, 2014). This situation has generated a fierce international tax competition between countries and determined them to change their tax policies in the „run” for the international mobile financial capital (Dietsch and Rixen, 2014). For this purpose, some countries have developed special legislation, centered on attracting financial capital from other countries and do not levy any taxes or levy close to zero taxes for certain categories of income (Shaxson, 2012).

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With the intensification of economic globalization, tax havens and offshore companies have become more and more important and have proven to be one of the most efficient solutions in fighting taxation (Sikka, 2013). To this purpose, Palan *et al.* (1996) believe that offshore jurisdictions represent “nothing less than the cornerstone of the process of globalization”. In this context, “aggressive tax planning is a source of increasing concern for many countries” (OECD, 2011). Usually, this refers to the companies’ developing and using of financial techniques (transfer pricing, financial schemes to obtain numerous deductions or tax credits) in order to avoid paying taxes or considerably reduce their tax expenses (Both, 2015). Thus, tax havens are rarely absent from the tax optimization schemes of the large multinational companies. An analysis performed by ActionAid reveals that almost half of the large corporations’ investments in developing countries are directed from or through tax havens (ActionAid, 2013). An extremely important role in developing such tax optimization strategies is played by attorneys, financial intermediaries, major banks and accounting companies (Sikka and Willmott, 2013; Harari *et al.*, 2012; Christensen and Murphy, 2004; Afrasinei and Georgescu, 2015).

Some of the researchers in this field observed that defining a tax haven is a relatively difficult task (Preuss, 2012; Palan *et al.*, 2010; Kudrle, 2009; Palan, 1998), leading to the lack of a generally accepted definition of this concept to the present day (Slemrod and Wilson, 2006; Palan, 2009; ActionAid, 2011; Gravelle, 2015). Also, the current definitions in literature can be inevitably considered subjective (Palan *et al.*, 2010). Nevertheless, we have noticed that one of the definitions most commonly used by scholars is the one issued by the OECD in 1998 (Johnson and Holub, 2004; Killian, 2006; Cobham, 2012; Gravelle, 2015). Under the Organization for Economic Co-operation and Development initiative regarding the Harmful Tax Competition (1998), tax havens can be identified based on four main criteria, respectively: (a) they are jurisdictions that do not levy tax or levy only a nominal tax; (b) they are jurisdictions that avoid exchanging information with tax authorities in other countries; (c) they are jurisdictions characterized by lack of transparency and (d) they are jurisdictions that harbor companies that do not perform substantial operations in the respective location.

The elimination of commercial barriers has created a multitude of benefits, but tax havens are regarded by some authors as a dark side of globalization, as William Brittain-Catlin (2006) has titled his well-known book (Offshore: The Dark Side of the Global Economy). In his opinion, „creating an onshore nation is the only way to restore financial sovereignty” (Brittain-Catlin, 2010). Also, Christensen (2011) believes that „tax havens encourage capital flight, exacerbate financial crises, and

impose economic costs in the form of reduced investment, slower economic growth and higher unemployment“. Moreover, Venckus and Gaidelys (2013) emphasize that operations performed through offshore financial centers have a harmful impact on the economies of countries that are not tax havens or offshore financial centers.

Nevertheless, other authors view the relationship between financial crises and tax havens as exaggerated and oftentimes misconstrued, and as tending to be promoted mostly in order to „discredit the international financial system” (Loomer and Maffini, 2009).

Although offshore companies represent a subject frequently analyzed by researchers, the complexity and spreading of this phenomenon still provides new research opportunities, especially at a microeconomic level. This subject, highly publicized internationally in the latter years (see for example the Panama Papers and Offshore Leaks), has been mostly approached from a macroeconomic perspective. Palan *et al.* (2010) outline that this situation was not created by a lack of interest by the researchers, but rather by the difficulty to find relevant data and by the fact that companies have the option to publish their consolidated accounts, where the operations performed through tax havens are concealed from the eyes of the stakeholders.

This paper tackles an under-researched subject on the case of Romania. So far, we have not found a study that investigated the effects of using tax havens on the financial statements of Romanian companies. Thus, in this study we intend to observe the influence of companies’ use of tax havens on their profitability and effective tax rate.

### **A Brief Review of Literature**

The topic of tax havens is attractive both for practitioners and scholars. However, due to lack of access to data, few researches have been conducted to analyze the influence of the presence of companies in tax havens on their financial performance and effective tax rate. As literature shows, the use of tax havens is characterised by a high degree of secrecy: confidentiality, anonymity or bank secrecy (Antoine, 1999; Johannesen and Zucman, 2014; Slabinskiy, 2013). Usually, the companies with subsidiaries in tax havens try to maintain discretion in order not to draw attention to their activities because, oftentimes, tax havens are assimilated with immoral, socially irresponsible and even unlawful practices (Mitchell *et al.*, 2002; Sikka, 2010; Otusanya, 2011; Schwarz, 2011). Sopková and Raskovská (2012) stated that „responsible businesses make an economic profit and social benefit by their commitment to ethical conduct and social responsibility, whereas irresponsible businesses steal the resources of the state and society.” In this respect, in Romania, information

regarding the shareholders, subsidiaries or other foreign affiliated entities registered in tax havens is limited and difficult to obtain.

Also, given the "delicate" character of this phenomenon, Romania's fiscal authorities are not willing to provide information or statistics on domestic companies that are using tax havens. However, if the names of shareholders may be obtained on request (fee-based) from the National Office of Trade Registry (2014), information on foreign subsidiaries or other foreign affiliated parties are extremely limited in the case of non-listed companies.

Having as a starting point the issue of tax avoidance and shifting profits from developing countries to tax havens (eroding public revenues and hindering economic development), Fuest and Riedel (2010) conducted a study on a sample of large companies from China, India, Indonesia, Malaysia, Pakistan, Philippines, Taiwan and Thailand. Through this study the authors tried to identify by comparison the differences regarding the taxes paid by domestic firms, firms belonging to a multinational group and firms belonging to a multinational group with connections to tax havens. The financial data of the companies were obtained from the Orbis database.

Results of the study show that firms belonging to a multinational group have obtained a lower ratio of return on assets than domestic firms. However, the firms belonging to a multinational group with related parties in tax havens have not obtained a return on assets ratio significantly lower than the national ones. Regarding the tax payments per total assets, the authors identified that firms belonging to a multinational group pay less (15%) compared to the national firms (18%). Also, in this case there are no significant differences between the results of national companies and those with connections to tax havens. However, there are considerable differences in the case of effective tax rate. While domestic firms have the highest effective tax rate (20%), the firms belonging to a multinational group have obtained an effective tax rate of 16.9% and those that are present in tax havens a rate of only 13.2%. Moreover, the firms that have a direct ownership link to tax havens (via a direct parent firm or subsidiary) obtain an average tax rate of only 11.2%. These results were confirmed by regression analysis.

In a subsequent study based on the same methodology (with some differences) and the same data source, Janský (2013) conducted a research on multinational companies operating in India. The author divided the companies into two main groups: multinational companies with no connections to tax havens and multinational companies with connections to tax havens. The results of this research emphasize that in 2010 the multinational companies with links to tax havens reported 1.5 percent less pre-tax profits per unit of assets, paid 17.4 percent less in taxes per unit of assets, paid 30.3 percent

less in taxes per unit of profit (effective tax rate) and had 11.4 percent higher debt ratios than multinational companies with no such connections. These results were confirmed through linear regression analysis. As a conclusion, Janský stated that these findings “strongly suggest that multinational companies with connections to tax havens engage in profit shifting more intensively than those multinational companies with no tax haven links.” Using a different approach, Dyreng and Lindsey (2009) identified that on average U.S. firms that disclosed material operations in tax havens have a worldwide tax burden on worldwide income 1.5 percentage points lower than firms without operations in such jurisdictions.

Going forward, we will present the methodology we applied in our study, respectively the goals of the research, hypotheses, data collection and sample.

### **Research Methodology**

Using the studies conducted by Fuest and Riedel (2011) and by Janský (2013) as a starting point, the purpose of our research is to analyze the influences of the presence of Romanian non-listed firms in tax havens on their profitability and effective tax rate. In order to enable comparisons of the obtained results, we will use a sample structured in two categories: companies with connections to tax havens and companies without connections to tax havens.

We considered companies to have connections to tax havens (or to be present in tax havens) if they are owned by companies (which hold more than 50% of the share capital) or have subsidiaries (holding more than 50% of the share capital) registered in such jurisdictions. Companies without connections to tax havens are those which have Romanian shareholders (100% of the capital) and have at least one subsidiary registered in Romania. In other words, the criterion used for delimiting the sample was that of the exclusive control, involving the hold of a majority of voting interest. We chose that national companies have at least one subsidiary registered in Romania, in order to have a comparison for companies present in tax havens. Thus, both company categories are members of a group of firms.

Same as in the case of defining tax havens, a generally accepted standard list of jurisdictions does not exist in the literature. There are multiple lists of tax havens, created by scholars or organizations based on their own criteria, starting in 1982: Irish (1982), Beauchamp (1983), Doggart (1983), Hines and Rice (1994), Organization for Economic Co-operation and Development (2000), Tax Justice Network (2005), Tax Justice Network (2007), U.S. Government Accountability Office (2008).

In our paper we have used the tax havens list from the study „Addicted to tax havens: the secret life of the FTSE 100”, conducted by ActionAid (2011). In this study, the international organization ActionAid considered that Netherlands and the U.S. state Delaware should also be included. We concur with this view, as Delaware is considered one of the first tax havens in the world (Palan, 2009), offering tax exemptions to large companies starting with 1880 (Deneault, 2011). This jurisdiction still has the characteristics of a „genuine” tax haven. Moreover, according to the Financial Secrecy Index calculated by the Tax Justice Network in 2009, Delaware was on the first place (Tax Justice Network, 2015). It's stated that if you register a company in Delaware, no one will ever know (Mathiason, 2009).

Netherlands is the country preferred by multinational companies as a bridge for directing foreign investments to other countries and for this reason some authors named it „the major conduit for foreign direct investment” (Galeza, 2011). For example, multinational companies directed through Netherlands approximately 1,600 billion Euros in 2009 only (Weyzig, 2013). Considering it is a member of the European Union and it has favorable international tax treaties, incorporating a holding company in Netherlands encourages the development of complex tax optimization strategies that facilitate a significant reduction of dividend taxes or interest taxes on intra-firm loans (Afrasinei, 2016). Moreover, Netherlands was included in the 2005 Tax Justice Network list of countries and territories that can be considered tax havens and offshore financial centers. Also, Richard Gordon noticed in his 1981 report for the Treasury of the United States that Netherlands was a tax haven starting with the XVIth century as, at the time, it applied „a minimum of restrictions and duties” (Gordon, 1981). Taking into account these arguments, and according to ActionAid opinion, we consider that Netherlands corresponds to the concept of „permissive tax jurisdiction” and can be considered a tax haven.

### ***Data, Target Population, Sample***

In order to identify the country of registration of shareholders and subsidiaries, as well as to obtain financial data of the companies, we have used the Orbis database. This is a database provided by the Bureau van Dijk (BvD) from Netherlands which contains financial information from over 160 million companies worldwide (Bureau Van Dijk, 2015). BvD is a company founded in 1991 having as main activity the provision of financial information about companies worldwide. Currently, it has offices in 24 countries and over 700 employees. The Orbis database can be accessed through an online

platform which offers the option to generate data for a number of companies by making queries based on certain criteria, such as country of registration of shareholders or subsidiaries (our current case) among many others. We obtained a database from Orbis with the courtesy of Bureau van Dijk, based on criteria set by us, but with a limited number of variables (turnover, total assets, profit/loss before tax, taxation, profit/loss after tax and ROE – calculated based on profit/loss before tax). This information is for the financial year ended on December 31, 2014.

In order to identify the companies with connections to tax havens, searches were carried out for the shareholders and subsidiaries registered in the following jurisdictions: Andorra (AD), Anguilla (AI), Antigua and Barbuda (AG), Aruba (AW), Bahamas (BS), Bahrain (BH), Barbados (BB), Belize (BZ), Bermuda (BM), Cayman Islands (KY), Costa Rica (CR), Curaçao (CW), Cyprus (CY), Dominica (DM), Gibraltar (GI), Grenada (GD), Hong Kong (HK), Ireland (IE), Jordan (JO), Latvia (LV), Lebanon (LB), Liberia (LR), Liechtenstein (LI), Luxembourg (LU), Macao (MO), Maldives (MV), Malta (MT), Marshall Islands (MH), Mauritius (MU), Monaco (MC), Nauru (NR), Netherlands (NL), Panama (PA), Saint Kitts and Nevis (KN), Saint Lucia (LC), Saint Vincent and the Grenadines (VC), Samoa (WS), San Marino (SM), Seychelles (SC), Singapore (SG), Sint Maarten (SX), Switzerland (CH), Vanuatu (VU), Virgin Islands (British) (VG). Although the list of tax havens that we considered in our approach comprises 52 jurisdictions, not all of them are found in Orbis database.

The initial sample comprised a total of 18,923 companies (according to statistics from the National Trade Register Office, in Romania there were 747,699 companies active in 2014), out of which we eliminated the following categories of firms:

- firms with a turnover of less than 65,000 Euros, in order to avoid confusion between the profit tax and the microenterprises income tax. According to art. 112 <sup>^</sup> 6 of the Law 571/2003 in conjunction with Gov. Decision 44/2004 regarding the Fiscal Code in Romania (although currently Law 227/2015 regarding the Fiscal Code of Romania is in force, information regarding the analyzed companies refers to the year 2014, for which Law 571/2003 was in force), a microenterprise paid tax on profit if it reported incomes over 65,000 Euro in a fiscal year;
- firms for which no information was available for the variables listed above;
- firms with a negative value of total assets;
- financial and banking firms;
- firms with the financial indicators extracted from consolidated statements.

Following this operation, the final sample consists of 7,167 companies (3,370 with connections to tax havens and 3,797 without connections to tax havens). For data analysis we used the simple and multiple linear regression method with dummy variables through the statistical tool SPSS.

### ***Research Hypotheses and Variables Used in Statistic Analysis***

Given the identified problem and purpose, our research approach is based on a series of hypotheses that we will describe below.

*H1. The connections to tax havens of Romanian non-listed firms significantly influence their profitability.*

The main reason for which companies perform operations through tax havens is tax avoidance. Conducting intra-group tax optimization transactions allows for the profit to be redirected to tax havens in order to reduce the tax base. By this means, the financial performance of the companies is influenced. Fuest and Riedel (2010) emphasize that companies profitability can show a measure of the income shifting to other jurisdictions. Although are several ways to measure the profitability of firms, return on assets ratio (ROA) and return on equity ratio (ROE) are key indicators in this regard (Strýcková, 2015; Choi *et al.*, 2010). Also, our access to financial data allowed us to measure the profitability by gross profit margin ratio.

The validation of this fundamental research hypothesis can be accomplished by testing and confirmation of the following operational hypotheses:

- H1.1. the connections to tax havens of Romanian non-listed firms significantly influence their return on equity ratio;
- H1.2. the connections to tax havens of Romanian non-listed firms significantly influence their return on assets ratio;
- H1.3. the connections to tax havens of Romanian non-listed firms significantly influence their gross margin ratio.

*H2. The connections to tax havens of Romanian non-listed firms significantly influence their effective tax rate.*

Previous studies (Janský, 2013; Fuest and Riedel, 2012) have shown that companies with connections to tax havens report a lower effective tax rate than the ones without such connections.

*H3. In the context of the presence in tax havens of Romanian non-listed firms, the size of the companies significantly influences their profitability and effective tax rate.*

Previous papers (Krautheim and Schmidt-Eisenlohr, 2011; Sikka, 2010; GAO, 2008) have shown that large companies are the main users of tax havens, as they have the financial power to employ financial experts or contract the large tax consulting firms in order to develop complex tax optimization strategies.

Table no.1 presents a description of the variables used in statistical analysis, including their nature and attributes.

**Table 1 - Variables used in analysis**

No.	Variable	Determination method	Statistical description
1.	D_CTH	We measure with a dummy variable that is “1” if companies have connections to tax havens and “0” otherwise.	Independent variable Dummy variable
2.	D_Size	Company size was determined by the size of turnover and total assets. <sup>1</sup> We considered large those companies with a turnover of over EUR 40 million and the total assets value exceeding EUR 20 million. <sup>2</sup> All other companies were considered small. We measure with a dummy variable that is “1” if companies are large and “0” otherwise.	Independent variable Dummy variable
3.	ROE(*)	$ROE = \frac{\text{profit/loss before tax}}{\text{equity}} \times 100$ (*) this indicator has been retrieved calculated from Orbis database	Dependent variable
4.	ROA	$ROA = \frac{\text{profit/loss before tax}}{\text{total assets}} \times 100$	Dependent variable
5.	GMR	$GMR = \frac{\text{profit/loss before tax}}{\text{turnover}}$	Dependent variable
6.	ETR	$ETR = \frac{\text{tax expense}}{\text{profit/loss before tax}} \times 100$	Dependent variable
7.	TAT	$TAT = \frac{\text{turnover}}{\text{total assets}}$	Dependent variable
<b>Variable definitions:</b>		D_CTH = Connections to tax havens D_Size = Companies size ROE = Return on equity ratio ROA = Return on assets ratio GMR = Gross margin ratio ETR = Effective tax rate TAT = Total assets turnover ratio	

**Notes:** <sup>1</sup>We did not have access to information regarding the average number of employees of these companies.

<sup>2</sup>We set up these limits starting from the Directive No. 2013/34/EU of the European Parliament and Council of 26 June 2013 concerning annual and consolidated financial statements and other related reports of certain types of companies (European Parliament and European Council, 2013).

When analyzing the effective tax rate, there are certain difficulties regarding the treatment of companies that registered losses. Thus, some authors have removed from the sample the companies that have a negative or zero income before tax (Zimmerman, 1983; Omer *et al.*, 1993; Richardson

and Lanis, 2007; Donohoe, 2015), while others have included these companies (setting the effective tax rate to zero) in order to reflect the influence of loss (Collins and Shackelford, 1995; Gupta and Newberry, 1997; Janssen and Buijink, 2000; Adhikari *et al.*, 2006; Lazar, 2013).

In our research context, we consider necessary to include in the analysis the companies that report losses. Reporting a profit as low as possible (including negative) in order to reduce tax expenses is a feature of companies that use tax havens. For this purpose, we used two versions for the calculation of the effective tax rate. In the first version (ETR1) we excluded the companies that registered losses or zero profit before tax, but we set the effective tax rate to zero for those companies that have profit and do not report tax expenses. For the second version of effective tax rate (ETR2) we included the companies with a negative or zero income before tax (setting the ETR to zero), instead we excluded the companies which reported tax expenses, although they reported losses (in order not to lead to a negative effective tax rate). The tax expenses reported by the companies refer to the current tax because non-listed companies do not have the obligation to report deferred tax.

Next, we present the results of the research, respectively the descriptive statistics of the companies in the sample and the results of the regression analysis.

### Research Results and Interpretations

To shape an overview of the studied phenomenon, Table 2 shows the main descriptive statistics individualizing the analyzed companies. The presence in tax havens divide the sample in two clusters: the first cluster emphasizes the companies with connections to tax havens, while the second emphasizes the companies without connections to such jurisdictions. The extreme values for each variable analyzed were replaced with the 5 percentile value (minimum extreme values) and 95 percentile value (maximum extreme values) (Ghosh and Vogt, 2012).

**Table 2 - Descriptive statistics for dependent variables**

Variables	Total sample	Companies without connections to tax havens	Companies with connections to tax havens	Differences
<b>Return on equity - ROE</b>				
<i>N</i>	5460	3234	2226	
Minimum	-35.0813	-35.0813	-35.0813	
Maximum	118.8001	118.8001	118.8001	
Mean	27.1046	25.6327	29.2430	14.0847%
Median	15.9175	15.2960	17.8015	

<b>Variables</b>	<b>Total sample</b>	<b>Companies without connections to tax havens</b>	<b>Companies with connections to tax havens</b>	<b>Differences</b>
Std. deviation	39.0671	35.7281	43.3830	
<b>Return on assets - ROA</b>				
N	7162	3796	3366	
Minimum	-31.3479	-31.3479	-31.3479	
Maximum	42.8371	42.8371	42.8371	
Mean	4.8390	6.3164	3.1727	-49.7704%
Median	2.7945	3.4928	1.9326	
Std. deviation	16.5527	14.8125	18.1765	
<b>Gross margin ratio – GMR</b>				
N	7167	3797	3370	
Minimum	-76.3429	-76.3429	-76.3429	
Maximum	43.7704	43.7704	43.7704	
Mean	0.1725	4.2508	-4.4225	-204.0392%
Median	2.7760	3.4501	1.8597	
Std. deviation	26.1507	21.0506	30.2562	
<b>Effective tax rate (variant 1) – ETR1</b>				
N	5115	3051	2064	
Minimum	0	0	0	
Maximum	54.0044	54.0044	54.0044	
Mean	17.6416	18.0998	16.9641	-6.2747%
Median	16.1636	16.2041	16.0891	
Std. deviation	12.7052	12.1819	13.4157	
<b>Effective tax rate (variant 2) – ETR2</b>				
N	6820	3661	3159	
Minimum	0	0	0	
Maximum	43.6537	43.6537	43.6537	
Mean	12.7874	14.5932	10.6947	-26.7145%
Median	15.1710	15.9973	7.5100	
Std. deviation	12.1588	11.6626	12.3863	
<b>Total assets turnover ratio - TAT</b>				
N	7166	3797	3369	
Minimum	7.5154	7.5154	7.5154	
Maximum	511.1146	511.1146	511.1146	
Mean	1.3874	1.2782	1.5105	17.3955%
Median	96.1688	92.9213	102.8265	
Std. deviation	133.8825	116.8224	149.8808	

Next we present the results of the regression analysis that emphasize the influence of the presence in tax havens of Romanian non-listed companies on their profitability and effective tax rate.

In this analysis, the independent variables are the "connections to tax havens" and "company size" and the dependent variables are return on equity ratio, return on assets ratio, gross margin ratio, effective tax rate and total assets turnover ratio. The results of the statistical processing through the

SPSS software are shown in Table 3.

**Table 3 - Simple and multiple linear regression models**

No.	Equation model	Observations	Statistic test
1.	$ROE = 25.633 + 3.610 D_{CTH}$ (0.000) (0.001)	5460	SigM = 0.001
2.	$ROE = 26.481 + 5.721 D_{CTH} - 20.026 D_{Size}$ (0.000) (0.000) (0.000)	5460	SigM = 0.000
3.	$ROA = 6.316 - 3.144 D_{CTH}$ (0.000) (0.000)	7161	SigM = 0.000
4.	$ROA = 6.413 - 2.930 D_{CTH} - 2.516 D_{Size}$ (0.000) (0.000) (0.001)	7161	SigM = 0.000
5.	$GMR = 4.251 - 8.673 D_{CTH}$ (0.000) (0.000)	7166	SigM = 0.000
6.	$GMR = 4.395 - 8.353 D_{CTH} - 3.764 D_{Size}$ (0.000) (0.000) (0.001)	7166	SigM = 0.000
7.	$ETR1 = 18.100 - 1.136 D_{CTH}$ (0.000) (0.002)	5114	SigM = 0.002
8.	$ETR1 = 18.139 - 1.048 D_{CTH} - 1.106 D_{Size}$ (0.000) (0.004) (0.123)	5114	SigM = 0.002
9.	$ETR2 = 14.593 - 3.899 D_{CTH}$ (0.000) (0.000)	6819	SigM = 0.000
10.	$ETR2 = 14.648 - 3.773 D_{CTH} - 1.468 D_{Size}$ (0.000) (0.000) (0.008)	6819	SigM = 0.000
11.	$TAT = 0.128 + 0.232 D_{CTH}$ (0.000) (0.000)	7165	SigM = 0.000
12.	$TAT = 0.129 + 0.261 D_{CTH} - 0.341 D_{Size}$ (0.000) (0,000) (0.000)	7165	SigM = 0.000

**Variable definitions:**

D\_CTH = Connections to tax havens

D\_Size = Companies size

ROE = Return on equity ratio

ROA = Return on assets ratio

GMR = Gross margin ratio

ETR1 = Effective tax rate (variant 1)

ETR2 = Effective tax rate (variant 2)

TAT = Total assets turnover ratio

Note: the significance of the variables is represented by Sig values noted in parentheses

From the data presented in Table 2, it can be noted that companies present in tax havens have a return on equity ratio 14.08% higher, on average, than companies without connections to tax havens. According to regression model no.1 from Table 3, the presence in tax havens results in a return on equity ratio 3.610 percentage points higher, which may suggest that within these companies the financing is made by loans rather than through equity or that higher dividends are paid. When including in the analysis the size of the entities, according to regression model no.2 we can observe

that the large companies present in tax havens obtain a return on equity ratio 20.026 percentage points lower than the small companies. A possible explanation may be given by the fact that large companies have the financial and human resources needed to develop complex tax optimization strategies in order to reduce the net income and the tax base. Also, taking into account that the profit reinvested in technological equipment is exempt from tax since July 2014 and that there are limitations on the deductibility of interest expenses (Law 571/2003), financing is not performed so much through loans as in the case of small companies, but mostly through equity.

From the analysis of return on assets ratio, Table 2 highlights the fact that companies present in tax havens have an average rate of this indicator 49.77% lower than companies without connections to tax havens. Through statistical regression model no.3 we can observe that companies present in tax havens obtain a result 3.144 percentage points lower than other companies. This situation could be explained by the fact that companies present in tax havens have the opportunity to develop international tax optimization strategies, resulting in a decrease of their income before tax. Another feature that supports this idea is the fact that 80% of the companies not present in tax havens have profit, while only 61% of the companies with connections to tax havens have profit. Analyzing this indicator in conjunction with the return on equity, we can confirm the previous statement according to which financing through loans is much larger in the case of companies that are present in tax havens than in the case of companies without connections to tax havens (the numerator is the same in the calculation of both indicators, respectively the profit/loss before tax). According to regression model no.4, when present in tax havens, large companies obtain a return on assets ratio 2.516 percentage points lower than small companies. This may suggest that large companies have the possibility to develop complex tax optimization strategies through their foreign affiliates. The situation is also confirmed in the literature (Sikka, 2010; Mills *et al.*, 1998).

Regarding the income before tax to turnover ratio (proxy for gross profit margin), we can notice a difference of 204% (negative) in the case of companies present in tax havens. According to regression model no.5, these companies report a gross margin ratio 8.673 percentage points lower than the entities without connections to tax havens. This could be explained by the fact that the companies with subsidiaries or shareholders in tax havens use aggressive tax avoidance techniques through intra-group transactions (transfer pricing), such as loans or purchases/sales of goods/services, that help reduce their income before taxes. Oftentimes, transactions between related companies are fictitious (or over-evaluated/under-evaluated), especially in the case of consultancy services, management services or staff delegation (Clausing, 2003; Lambsdorff, 2011; Sikka and Hampton, 2005). If we include in the analysis the entities size, regression model no. 6 points out that, when

present in tax havens, large companies have a gross margin ratio 3.764 percentage points lower than small companies. As we previously stated, large companies have the resources (financial and human) needed to minimize their tax base.

In order to analyze the effective tax rate we reported the income tax to the profit before tax. For this purpose, we used two versions of calculating this indicator. In the first version we did not consider the companies that had losses and those that had profits but their tax is negative, in order not to negatively influence the results. Thus, we note that companies present in tax havens obtain an effective tax rate on average 6.27% lower than companies without connections to tax havens. While it may seem relatively small, the difference of 6.27% between the two types of companies is significant given the fact that we excluded from the analysis the companies that reported losses (38% of companies present in tax havens). Regression model no.7 confirmed that the presence in tax havens determines an effective tax rate 1.136 percentage points lower. Including in the analysis the company size, regression model no. 8 emphasizes that, when present in tax havens, the large companies have an effective tax rate 1.106 percentage points lower than the small companies.

The second version we used to calculate the effective tax rate implies the inclusion in the analysis of companies that reported losses (setting the tax and hence the effective tax rate to zero) because, oftentimes, the aggressive tax optimization techniques applied through offshore companies lead to a negative income (which can provide a full tax avoidance). Moreover, this could be the main reason for which some companies are present in tax havens. In this respect, the results indicate that companies present in tax havens have an effective tax rate on average 26.71% lower than the companies without connections to tax havens. Also, through the regression model No.9 we can see that the presence in tax havens leads to a lowering of the effective tax rate by 3.899 percentage points. This can be explained by the fact that the companies present in tax havens are more concerned with taxation and, at the same time, they have a greater potential to get tax breaks or tax incentives when making foreign direct investments. The capital outflows from Romania to tax havens or offshore financial centers often returns in the form of foreign direct investments. Romanian investors prefer to invest through foreign companies (typically registered in tax havens) in order to take advantage of tax facilities and lower tax rates from double tax agreements (Afrasinei, 2016). This practice is known in the literature as the "round-tripping of capital". Given the reluctance of many tax havens to provide or even to obtain information about the real ownership or assets of certain types of offshore companies registered there, such as shell companies, the round-tripping of capital flows often can not be detected (ActionAid, 2013). For example, the balance of foreign direct investment in Romania at the end of

year 2014 show that about 38.8% of them were conducted through tax havens (own processing based on data from National Bank of Romania, 2015). Also, the companies present in tax havens could have non-taxable income, tax deductions or foreign tax credits. For example, Fuest and Riedel (2012) note that the mobility of the investments of these companies (with connections to tax havens) allows them to negotiate tax advantages with the governments of host countries.

Including in the analysis the size of entities, regression model No.10 shows that, when present in tax havens, large firms have an effective tax rate 1.468 percentage points lower than the small companies. In general, large companies benefit from significant financial resources which allow them to adopt advanced tax optimization strategies by resorting to tax advisory firms or by hiring financial experts (Sikka, 2010). Moreover, as the financial strength and size of these companies increase, the tax strategies adopted are diversifying and becoming more and more complex (Istrate, 2000). Also, these companies are defined, in general, by an increased productivity, allowing them to negotiate with the government for additional tax benefits. Professor Prem Sikka (2008) notes that some multinational companies have become so powerful and influential that they are putting pressure on governments and imposing special conditions regarding taxation, threatening with moving to other countries if the required conditions are not met.

In addition to the study of Fuest and Riedel, we considered relevant to analyze the turnover (used as a proxy for operating revenues) per total assets, and the income before tax per turnover. This information can complement the previously analyzed indicators and may provide further explanation in analyzing the phenomenon.

The data from Table 2 highlight the fact that companies present in tax havens have a value of turnover per total assets (indicator showing the turnover speed of the invested capital - used as a measure of efficiency) 17.40% higher compared to the companies without connections to tax havens. Regression model No.11 confirms that the presence in tax havens leads to an increase of the total assets turnover ratio by 0.232. This evidence may suggest the performing of many intra-group transactions, which contribute to an increased turnover (often artificially), but do not increase the assets in the same manner as intra-group receivables and payables are settled rapidly. Including in the analysis the size of entities we can note through regression model No. 12 that, in the context of the presence in tax havens, large firms have a total assets turnover ratio 0.341 lower than the small ones. This may suggest that large companies, characterized by higher productivity and greater financial resources, are investing more in assets than smaller ones.

In terms of statistics, the regression models presented are confirmed with a 95% degree of certainty (Sig is in the 0.000 – 0.002 range). In this respect, the hypotheses of this empirical study were validated.

## **Conclusions**

This paper tackled a topic highly debated in the latter years, both in international media and scientific research. The importance and the actuality of the analyzed subject can be easily remarked, for example, from the international impact of the Panama Papers, the most recent financial scandal that shook the offshore business world. However, this was only one of many others throughout history involving offshore companies and tax havens (see, for example, the Offshore Leaks, HSBC, UBS, Parmalat, Enron, Bernard Madoff cases, etc.)

In the context of financial globalization, companies have the option to develop tax optimization strategies for redirecting profits towards tax havens, thus effectively avoiding tax payments in the countries where they obtained the income. These strategies are so complex, that most of the time they are perfectly legal or, at least, they fit in the limits of the law and cannot be contested by the tax authorities.

Although a frequently discussed subject, the majority of researches were limited mainly to presenting the tax avoidance techniques through the use of tax havens, without effectively analyzing the impact on the company's financial statements in an empirical study. In this regard, there were rather few researches. As far as we know, in Romania such a research was not conducted up to the present day, and neither was made concrete estimates highlighting the capital flows towards tax havens at a macroeconomic level. The only publicly available data for such an analysis are the statistics regarding direct foreign investments (inflows) and Romanian companies with foreign participations in their equity capital (number of companies and shareholders' equity amounts). In regard of these considerations, our research had the purpose of analyzing whether the connections to tax havens of the Romanian non-listed firms have an influence on their financial performance and effective tax rates.

The results we obtained in this study have led to attaining the research objectives and the validation of the fundamental and operational hypotheses. Based on these, we appreciate that the existence of the Romanian companies' connections to tax havens has a significant influence on their

profitability and effective tax rates. The data obtained allowed us to analyze the profitability through the return on equity ratio (ROE), return on assets ratio (ROA) and gross margin ratio.

We have identified the fact that companies with connections to tax havens report a return on equity ratio 3.610 percentage points higher (14.08%), a return on assets ratio 2.516 percentage points lower (49.77%), a gross margin ratio 8.673 percentage points lower (204.04%) and an effective tax rate 1.136 percentage points lower (6.27% - ETR1 version), respectively 3.899 percentage points lower (26.71% - ETR2 version) compared to companies without connections to such jurisdictions. Also, notable is the fact that Romanian companies with connections to tax havens report a total assets turnover 0.232 higher (17.40%) than companies not present in tax havens.

The results of the research also highlight that the companies' size significantly influences the profitability and effective tax rates of the Romanian non-listed companies with connections to tax havens. Thus, in the context of their presence in tax havens, large companies report a return on equity ratio 20.026 percentage points lower, a return on assets ratio 2.516 percentage points lower, a gross margin ratio 3.764 percentage points lower and an effective tax rate 1.106 percentage points lower (ETR1 version), respectively 1.468 percentage points lower (ETR2 version) when compared to smaller companies. Moreover, large companies with connections to tax havens report a total assets turnover 0.341 lower than smaller companies.

These results suggest that Romanian companies with connections to tax havens are financed in a higher degree through loans rather than equity, as opposed to companies without connections to such jurisdictions. Also, these companies seem more interested in their taxation and have probably used international tax optimization strategies, in order to reduce their income before tax and, implicitly, their tax expenses. Such strategies usually imply receiving loans from affiliated entities, performing intra-group acquisitions/sales of goods or contracting consulting, management and staff delegation services from companies registered in tax havens. Moreover, through the use of aggressive tax planning, the companies with connections to tax havens can derive non-taxable income or take advantage of various tax incentives from the government or foreign tax credits. Investors have found tax advantages in investing in Romania through companies registered in tax havens. In this regard, some of the Romanian firms were transformed into subsidiaries of companies registered in offshore jurisdictions or at least have significant shareholders in such jurisdictions.

Considering the above arguments, we appreciate that the existence of connections to tax havens is helping the companies to redirect part of their profits towards these jurisdictions and reduce their tax expenses. Tax avoidance through the use of tax havens is a common practice for companies almost all over the world and represents a reason of concern for governments, due to the erosion of their

budget revenues. The results of this study show that Romanian companies also use this opportunity, in order for the investors to safeguard their wealth and get a larger share of the revenues. Moreover, these companies can re-invest the capital that was saved through tax avoidance and have a competitive edge on the market when facing companies that do not resort to tax optimization.

Tax justice should be a priority in this globalized economy. In order to moderate the phenomenon of tax avoidance by multinational companies, the European Commission adopted in 2016 “Country-by-Country Reporting”, a solution promoted by experts in the field (Murphy, 2016; Shaxson, 2012; Picciotto, 2012; Murphy, 2012; Palan *et al.*, 2010). In our opinion, “Country-by-Country Reporting” will have a positive impact on corporate tax transparency, but the large companies will find ways to still use tax havens as long as these jurisdictions will provide tax incentives for offshore entities.

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## THE EMPLOYMENT LEVELS IN THE EUROPEAN UNION AND IN THE REPUBLIC OF MOLDOVA: A COMPARATIVE ANALYSIS

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**Abstract:** *This article addresses the issue of employment. Employment policy was and still is a rather important issue that has always drawn economists' attention and has always been on the business agenda of central public bodies. The global economic crisis in 2008 influenced the employment rate of the workforce in most countries, including the EU Member States. Employment has been a problem for the Republic of Moldova since its independence. In order to increase the employment levels of the workforce, many countries have undertaken a series of active measures that have brought good results. The European Union itself, in the 2020 strategy aims at increasing the level of employment of the workforce up to 75% for people 20-64 years of age. This article describes the employment situation in the European Union and in the Republic of Moldova by highlighting the current disparities.*

**Keywords:** labour market; employment; labour force; employment rate

**JEL Classification:** F15; F16; J62; J64

### Introduction

Employment is an issue that triggers the most serious consequences in the economic and social development of a country. Respect for people, for the value that they bring should become a priority for the public central authorities. The labour force that fails to preserve their professionalism, at a level required by the transformations that are taking place in a competitive economy, is a primary issue of concern for the Republic of Moldova, in particular, and for the EU countries, in general. The employment problem has become an even hotter issue in the Republic of Moldova as a result of the relatively low employment rate compared to EU countries.

To have a competitive economy and a high quality level of life, it is necessary to have a high level of employment for all categories of people. The new requirements imposed by the competitive economy have forced some categories of people, especially those with a low level of professional training, to exclude themselves from the labour market. In these circumstances, state intervention

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through the implementation of active labour market measures which would maintain the labour force in the professional field, is becoming essential. When referring to the EU member countries in terms of employment, they are guided by the policies and strategies adopted and implemented at EU level. As for the Republic of Moldova, it must "borrow" and implement more firmly active employment policies and measures, which have proved their efficiency in EU countries.

This work is aiming at highlighting the discrepancies that exist between EU countries and the Republic of Moldova as concerns the employment of labor. Whist the aspiration to join the European Union, we wanted to highlight the gap that should be refilled by the Republic of Moldova as regards employment.

### **1. Literature review**

Employment is one of the most important issues facing society in general. However, we know that the level, structure and efficiency of employment show the macroeconomic performance and the ability of an economy to develop the human resources.

Since ancient times, many economists have addressed the issue of employment both directly or indirectly. Referring to the classical liberals - A. Smith, D. Ricardo, and J.B. Say - they dealt with the issue of employment in relation to unemployment. In their opinion, if unemployment appears and increases at a certain time, wages fall, the labour force cheapens, the cost goes down, which allows the manufacturer to increase production and employ a growing number of workers, thus leading to the disappearance of unemployment (Chiriac, p. 42). Meanwhile, J. B. Say considers supply and demand in the labour market and other markets are self-regulating and there is no need for state intervention in this area, and imbalances that arise between supply and demand in the labour market as well as the appearance of unemployment are temporary. This point of view is no longer valid in the current conditions because the state is increasingly getting involved by implementing different tools that will lead to the increase in employment levels.

In the view of the neoclassics, the labour market is subject to the same rules of competition as other markets, and labour demand freely faces labour supply based on a real wages level, which allows full employment of the labour force and, therefore, a general equilibrium in the labour market. (Causan, p.21). Classical liberals' views regarding employment are challenged by J. M. Keynes who claims that unemployment is not an absolute evil to a certain point, it can even be a positive factor by encouraging people to work better?. At the same time, Keynes says that in a capitalist society there is no mechanism that would ensure full employment of labour force (Keynes, p. 59).

Further research conducted in the field of employment highlighted the role of professional qualifications which has a great impact on the development of a modern economy and led to the emergence of two new theories - the theory of *dualism of the labour market* and *human capital*. If the first theory is based on the difficulties of hiring low-skilled labour, then the second theory reflects the role of education and vocational training in economic development. Both theories have had a great impact on the development of new employment policies of the workforce.

Currently, employment is being determined by important qualitative changes, related to the rapid increase in the level of education in developed countries, changes in the entry conditions of young people into the labour market, implementation of new requirements for hiring staff in their full professional career, but having low professional skills, who are facing increased competition from young people.

The concept of employment is quite complex and cannot be viewed just economically. A sociological approach to the concept of employment led to the creation of "a system of employment" (Christiansen *et al.* 1999), defining employment as any type of activity: work rewarded by salaries, entrepreneurship and self-owned businesses, volunteering and any other activities outside the labour market (Koistinen, 2001).

Employment policies are economic policies that can be implemented nationwide. The objectives of employment policies are to provide employment opportunities to all those who desire to work and to keep the unemployment rate to the possible minimum. The achievement of the employment policies objectives depends on active or passive tools and measures, promoted on the labour market. The tools used by employment policies are as follows: fiscal policies (taxes, subsidies); monetary policies (interests, foreign exchange rates); pay policies (minimum wages, wage indexing); social policies (retirement age, benefits for children) etc.

The active measure taken in the labour market, aim at increasing the attractiveness of the unemployed among employers. These measures maintain the existing competitiveness and reduce the loss of competitiveness. These measures usually target those at the risk of redundancy. They are called "active" because it is assumed they have a greater effect than paying the unemployed "passively" a compensation to replace the lack of income. Active measures in the labour market include a range of tools and services: mediation services/placement in the labour market; information services and career counselling training; labour market information services; promoting professional training; promoting territorial mobility in the labour market; promoting training in the techniques of finding a job; promoting the creation of self- owned businesses, etc.

Passive measures indirectly influence the volume and structure of employment on the one hand, and unemployment on the other. These include: contributions to the unemployment fund, subsidies for employment, when subsidies are not temporary in nature and are not intended to improve one's skills.

## **2. European Union concerns about employment**

Through *the employment policy*, the European institutions promote the policy of a highly skilled workforce, realizing that only in this way a higher level of global competitiveness can be provided for.

Both the European Union and the Member States, being aware of the fundamental social rights such as those set out in the European Social Charter signed in Turin on 18 October 1961 and the Community Charter of fundamental social rights of workers, adopted in 1989, set the objectives of promoting employment and improved living and working conditions. These will lead, given improvement, to ensuring adequate social protection and the development of human resources to enable a high and sustainable level of employment, and combating exclusion.

Right from the beginning of its formation, the European Union has been concerned with employment policy. An important role in promoting employment policy at EU level had the Amsterdam Treaty (1997) which formed the basis for the European Employment Strategy and led to the creation of a Standing Committee on Employment, having an advisory role, promoting cooperation between the policies of Member States in the field of employment and the labour market. The same year the European Employment 1997-2004 strategy dedicated to employment was launched, at the Summit in Luxembourg, aimed at achieving higher rates of employment at the same level with the macroeconomic objectives of growth and economic stability.

In 2000, the Lisbon European Council agreed on the new strategic goal of making the EU "the most competitive and dynamic knowledge-based economy in the world". According to the Lisbon Strategy (2000-2010), full employment was a major objective of the employment and social policies, therefore, the aim was to achieve the targeted objectives by 2010. To ensure a sustainable standard of living for all EU citizens, EU policies in the area of employment are aimed at:

- improving the working environment to protect the safety and health of employees;
- security and social protection of employees;
- protection of employees in the event of termination of the employment contract;
- collective representation and defence of employees' and employers' interests;

- integration of people excluded from the labour market;
- equality between men and women regarding job opportunities and treatment at work;
- avoiding social exclusion etc.

Lately, the labour flexicurity policy, which stipulates that in an increasingly dynamic labour market the employers' needs for flexibility and employees' security of their jobs can be satisfied simultaneously, has been extensively promoted at EU level (Birca, 2015). The implementation of EU labour flexicurity policy is based on four core elements:

- flexible and reliable contractual arrangements;
- strategies for lifetime learning;
- active and effective measures in the labour field;
- modern systems of social security.

These elements are applied by the Member States according to the principle of gradual implementation, starting from the initial situation of each Member State in this area.

Flexicurity is also a key element of the 2020 Europe strategy which aims at reforming and modernizing labour markets, processes which consists of four aspects. The first aspect focuses on the development of flexible and reliable contractual arrangements both from the employee and employer perspectives, presented by certain laws and institutions that regulate the labour market. The second aspect relates to the inclusion of specific measures for vulnerable people in the labour market (unqualified, unemployed, older workers or young people with disabilities, minorities, etc.). The third aspect relates to the development of active labour market policies that allow EU citizens to cope with rapid changes, periods of unemployment, reintegration and transition to new jobs. For this purpose, an important role is attributed to the European Employment Service (EES). The main objectives of the EES consist of, on the one hand, informing, guiding and providing advice to potentially mobile employees about available jobs and living and working conditions in the European Economic Area. On the other hand, the EES aims at assisting employers willing to recruit employees from other countries. The fourth aspect of the 2020 Europe strategy refers to ***modern protection systems of social security*** that will provide adequate financial support and facilitate mobility on the labour market.

At the same time, the Parliament and the European Council have taken serious measures to ensure the implementation of the principle of ensuring equal opportunities and equal treatment of men and women in matters of employment and at the working place, including the principle of equal pay for the same job or work. To really ensure full equality between men and women at work, the

principle of equal treatment does not prevent a Member State from maintaining or adopting measures that would stipulate specific advantages in order to facilitate a professional activity by the underrepresented sex or to prevent or compensate for disadvantages in professional careers.

In order to improve the opportunities for the employment of the human resources in the EU market, thus contributing to raising living standards, the European Social Fund was created, which aims at promoting within the European Union facilities for employment of the labour force, geographical and professional mobility of employees, and facilitating the adaptation to industrial changes and developments in production systems, particularly through training and retraining.

### **3. The issue of employment in the Republic of Moldova**

The labour market in the Republic of Moldova is still in a transitional stage, it is rigid and it generates strong structural, territorial, occupational and professional imbalances. It includes both mechanisms inherited from the socialist economy and specific elements of a market economy. In recent years, the labour market has witnessed steady trends in certain employment indicators.

Currently, the labour market in the Republic of Moldova has been facing problems related to the social security system, inefficient use of the labour force and reserves available for organizing the payroll system, increased migration of the population able to work abroad, the practice of "under the table" salaries, underemployment and economic discouragement of the working population, etc. The employment problem in the Republic of Moldova is primarily determined by the aging population that will significantly influence the future of the labour market and, secondly, the international migration of labour.

Although the problems of employment in the Republic of Moldova are quite big, state institutions have made efforts to review and adjust the laws related to the labour market to EU standards. Thus, along with the aspiration of the Republic of Moldova to integrate into the EU, several conventions that regulate employment have been adopted. Some of them are listed below: the ILO Convention No. 122 of 9 July 1964 on employment policy, the Convention No.111 of 25 June 1958 concerning discrimination in respect of employment and occupation, and Convention No. 100 of 29 June 1951 on the equal remuneration of males and females for carrying out a job of equal value.

In order to improve the employment situation in the Republic of Moldova, they periodically develop strategies for the employment policies of the workforce. The last strategy for employment was developed and adopted in 2007, covering the period of 2007 - 2015. The main objectives of the strategy were:

- strengthening long-term economic growth and the creation of new jobs;
- increasing the competitiveness of the Republic of Moldova in the international market in terms of labour costs, mobility, qualifications and adaptability of human resources to the requirements of flexible labour markets;
- harmonization of the labour law between the Republic of Moldova and the European Union;
- ensuring as full, durable and productive employment of the workforce as possible and achieving a decent level of remuneration. According to 2007 - 2015 Employment Strategy, this goal was to be achieved by accomplishing three tasks in common agreement with the European Employment Strategy and namely:
  - > increase the number of jobs;
  - > improve quality and increase labour productivity;
  - > strengthen social cohesion and inclusion by combating all forms of discrimination in the labour market, reducing gender disparities and differences between regions in terms of employment.

Although the 2007 - 2015 employment strategy objectives were quite clear and ambitious, especially those related to increasing the levels of employment, in this paper we show that this objective has not been achieved.

Currently, the employment level in the Republic of Moldova is determined by numerous problems that require finding solutions for both the medium and in the long term. They mostly refer to:

- the large number of low productivity jobs and insufficient wage levels, which become unattractive for the working population;
- the high share of informal activities in a number of sectors of the national economy;
- the high share of population involved in agriculture;
- migration of skilled labour abroad;
- insufficient involvement of economic agents in the professional training of the workforce without taking into account the requirements of the labour market etc.

Given the problems it faces in the employment field, the Republic of Moldova is currently in the process of developing a new 2016-2020 Employment Strategy by taking into consideration the goals set in the 2020 Europe Strategy.

#### 4. The analysis of labour employment in the European Union and in the Republic of Moldova

One of the indicators characterizing the level of employment is the employment rate which determines the employment rate of the working population and also reflects the capacity of the labour market to absorb the labour force. Given the relevance of this indicator in Table 1 we aim at analysing the evolution of the employment rate in the European Union and of each Member State over 2009-2015 for the group 15-64 years of age.

**Table 1 - The rate of employment in the European Union and each Member State in 2009-2015 for the group 15 - 64 years of age**

No.	Countries	Years			
		2009	2011	2013	2015
1.	EU-28	64,5	64,2	64,1	65,6
2.	Austria	70,3	71,1	71,4	71,1
3.	Belgium	61,6	61,9	61,8	61,8
4.	Bulgaria	62,6	58,4	59,5	62,9
5.	Czech Republic	65,4	65,7	67,7	70,2
6.	Cyprus	69,0	67,6	61,7	62,7
7.	Croatia	59,4	55,2	52,5	55,8
8.	Denmark	75,3	73,1	72,5	73,5
9.	Estonia	63,8	65,3	68,5	71,9
10.	Finland	68,7	69,0	68,9	68,5
11.	France	64,1	63,9	64,1	63,8
12.	Germany	70,3	72,7	73,5	74,0
13.	Greece	60,8	55,1	48,8	50,8
14.	Ireland	61,9	58,9	60,5	63,3
15.	Italy	57,4	56,8	55,5	56,3
16.	Latvia	60,3	60,8	65,0	68,1
17.	Lithuania	59,9	60,2	63,7	67,2
18.	Luxembourg	65,2	64,6	65,7	66,1
19.	Malta	55,3	57,9	60,8	63,9
20.	Great Britain	69,9	69,3	70,5	76,9
21.	Holland	77,0	74,2	73,6	74,1
22.	Poland	59,3	59,3	60,0	62,9
23.	Portugal	66,1	63,8	60,6	63,9
24.	Romania	58,6	59,3	60,1	61,4
25.	Slovakia	60,2	59,3	59,9	62,7
26.	Slovenia	67,5	64,4	63,3	65,2
27.	Spain	60,0	58,0	54,8	57,8
28.	Sweden	72,2	73,6	74,4	75,5
29.	Hungary	55,0	55,4	58,1	63,9

Source: Developed by the authors based on European Union statistics

Analysing the information in Table 1 it can be noticed that EU countries that were mostly affected by the economic crisis in 2008, recorded the most dramatic decrease in the employment rate. Over the analysed period, the employment rate in Cyprus for the age group 15-64 decreased from 69,0% in 2009 to 62,7% in 2015, accordingly Greece - from 60,8% to 50,8%, Croatia - from 59,4% to 55,8%, Portugal - from 66,1 to 63,9%. At the same time, we can notice a clear increase in the employment rate in such countries as Estonia, Germany, Latvia, Lithuania and Hungary.

Table 1 reflects the general picture of employment in the Member States of the European Union. In the conducted research, we aimed at analysing the employment rate in the European Union depending on the level of studies. Thus, in Table 2, we present the employment rate according to the 2015 study.

**Table 2 - The employment rate in the European Union and each Member State in 2015 for the group 15-64 years of age, according to studies%**

No.	Countries	2015			
		Total	Inclusive of		
			Primary and secondary education	Vocational training and college	Higher education (bachelor, master, doctor degrees)
1.	EU – 28	65,6	43,7	69,0	82,7
2.	Austria	71,1	47,2	73,5	85,0
3.	Belgium	61,8	36,0	64,0	81,8
4.	Bulgaria	62,9	29,6	67,2	84,0
5.	Czech Republic	70,2	22,3	75,4	82,6
6.	Cyprus	62,7	40,6	62,4	78,3
7.	Croatia	55,8	28,2	58,0	78,6
8.	Denmark	73,5	54,3	78,2	85,6
9.	Estonia	71,9	36,9	73,5	85,2
10.	Finland	68,5	37,9	70,2	82,9
11.	France	63,8	39,7	65,9	81,4
12.	Germany	74,0	46,1	78,0	87,8
13.	Greece	50,8	39,7	48,8	67,9
14.	Ireland	63,3	35,0	63,8	81,2
15.	Italy	56,3	42,2	62,9	76,3
16.	Latvia	68,1	34,7	68,8	85,1
17.	Lithuania	67,2	19,9	66,1	88,7
18.	Luxembourg	66,1	46,8	65,8	83,3
19.	Malta	63,9	52,0	69,6	88,7
20.	Great Britain	76,9	56,0	73,3	84,7
21.	Holland	74,1	57,0	76,5	87,4
22.	Poland	62,9	23,3	64,0	85,0
23.	Portugal	63,9	56,3	66,9	80,4
24.	Romania	61,4	42,6	64,9	85,3

THE EMPLOYMENT LEVELS IN THE EU AND IN THE REPUBLIC OF MOLDOVA

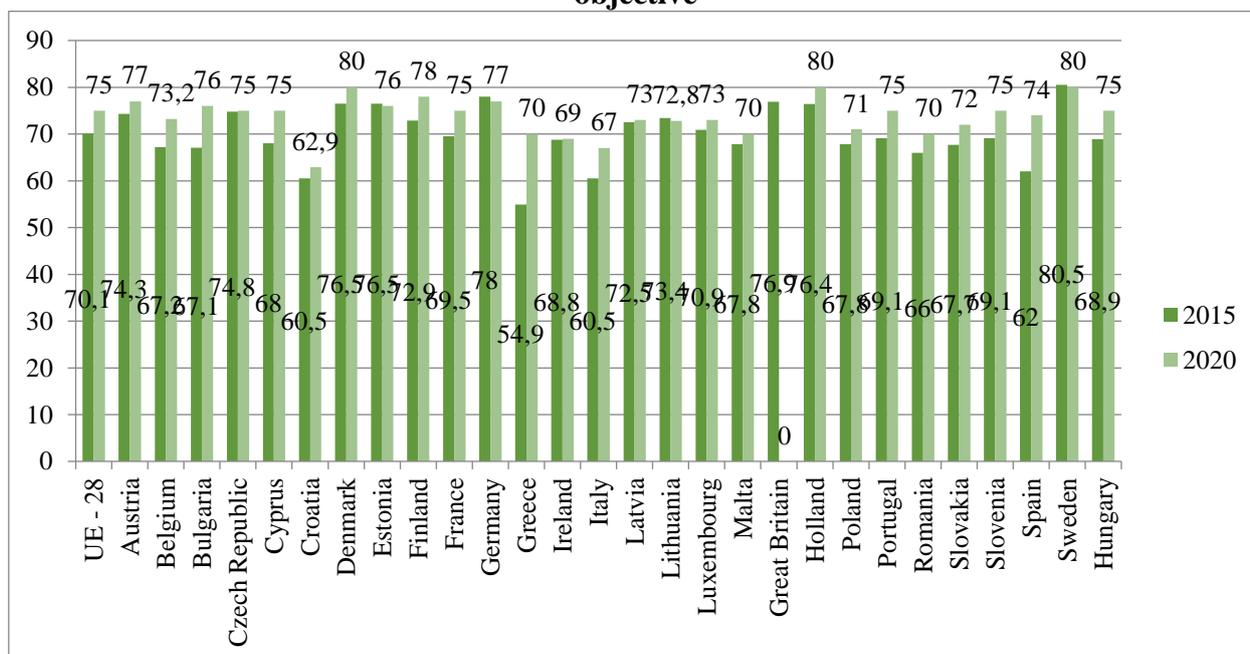
25.	Slovakia	62,7	18,4	68,6	76,5
26.	Slovenia	65,2	35,7	65,9	83,1
27.	Spain	57,8	46,2	57,5	76,7
28.	Sweden	75,5	46,0	80,9	87,7
29.	Hungary	63,9	33,9	68,8	82,1

Source: Developed by the authors based on European Union statistics

The information presented in Table 2 demonstrates that people with higher education are most likely to stay active in the labour market. In most EU countries, the employment rate among people with higher education was over 80% in 2015. Meanwhile, the lowest employment rate was recorded among people with primary and secondary education, which shows that this category of people is the most vulnerable in the labour market and is facing the greatest difficulties in finding a job. In 2015, the employment rate among people with primary and secondary education was twice lower than the rate of employment among people with higher education in such countries as Bulgaria, the Czech Republic, Lithuania and Poland. Regarding the employment rate of people with secondary vocational training and college, it falls between 48,8% Greece and 80,9 % - Sweden.

Also, it should be mentioned that by the 2020 Strategy the European Union has set the goals to increase the employment rate for the 20-64 years of age group to 75.0% in 2020, which would represent an increase of nearly 5.0 percentage points at EU level (Figure 1).

**Figure 1 - The employment rate in the EU and each member country set as a 2020 objective**



Source: Developed by the authors based on European Union statistics

According to Figure 1, most Member States have set the target to increase the employment rate for the age group of 20-64. Only in three EU Member States: Germany, Sweden and Lithuania the employment rate of the workforce is to be reduced in 2020 compared to 2015. This situation could be determined by the demographic processes taking place in these countries. Meanwhile, some countries have set the target of raising the employment rate by over 10% in 2020 compared to 2015. Greece and Spain are the countries that have mostly suffered from the economic crisis in 2008 and that have registered the highest unemployment rates.

In order to make a comparative analysis of the employment rate registered in the European Union and in the Republic of Moldova, in Table 3 shows the employment rate in the Republic of Moldova for 2009-2015 including the population aged 15-64.

**Table 3 - Employment rate in the Republic of Moldova in 2009-2015 for the population aged 15-64, %**

No.	Employment rate	Years			
		2009	2011	2013	2015
1.	<b>Total</b>	<b>40,0</b>	<b>39,4</b>	<b>39,3</b>	<b>40,3</b>
2.	Population with higher education	62,2	59,2	59,3	57,0
3.	Population with secondary specialized education	52,1	50,6	46,3	45,7
4.	Population with secondary vocational training	50,4	50,0	45,5	46,9
5.	Population with secondary or high school education	35,8	35,2	35,6	36,8
6.	Population with secondary education	26,0	26,2	28,2	30,3

Source: Developed by the authors based on information from the National Bureau of Statistics

Analyzing the information in Table 3, we can notice that the employment rate is much lower than that recorded in EU countries. Making a compared analysis of the employment rate between the Republic of Moldova and the Baltic countries, which withdrew from the same ex-Soviet zone, it can be noticed that in 2015 this indicator was over 1,5 times higher in Estonia, Latvia and Lithuania than that registered in the Republic of Moldova. Making a comparative analysis of the employment rate by the level of education in 2015, it looks almost identical to the global one. However, we have found that, over the analysed period, the employment rate was decreasing among people with higher education, secondary specialized and secondary vocational training but instead it was increasing among the population with secondary and high school education.

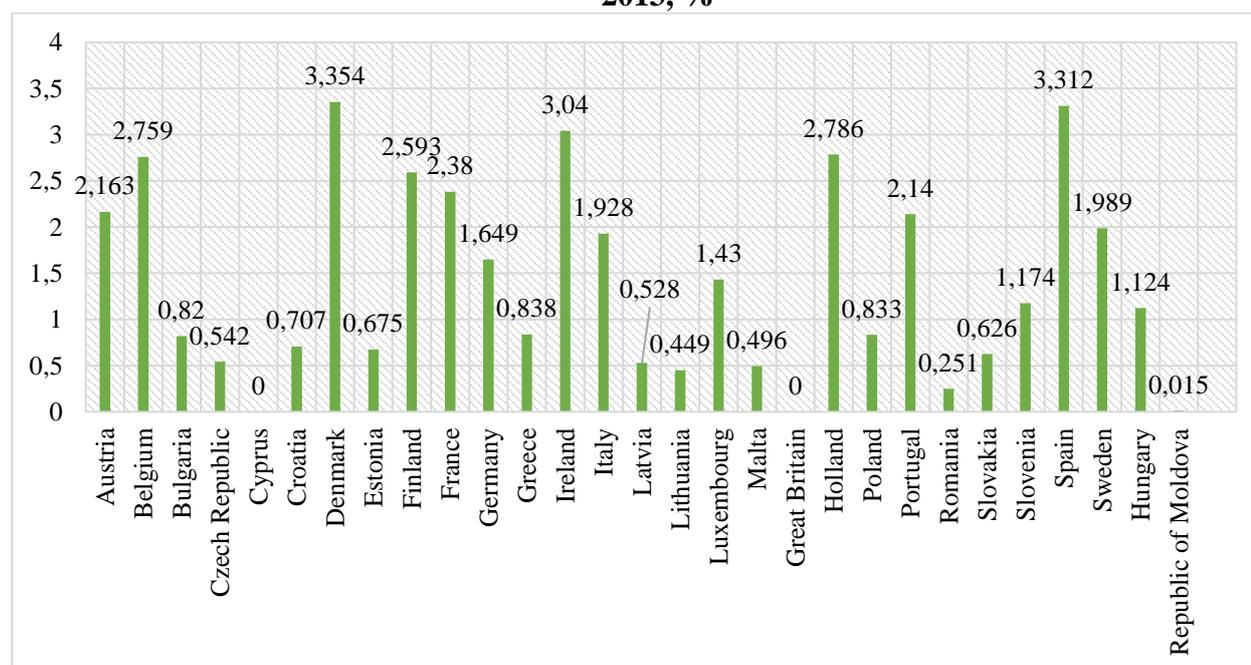
Although the employment strategy for 2007-2015 foresaw an increase in the employment rate to 60% in 2015, this goal was not achieved. Towards the end of the period this indicator stayed at only 40.3%.

### 5. Financial resources allocated for the implementation of the measures related to the labour market

To keep the working population employed is a priority for any state. Therefore, in order to facilitate the employment of people who, at a certain time, are outside the labour market, each country develops and applies its own policies and measures. In order to facilitate the insertion or reintegration of working people on the labour market, various measures can be taken: career guidance services, training services; labour mediation services, support to start their own businesses, etc.

Any labour market related action or policy being implemented requires financial resources which the country has to bear. In relation to the GDP, the financial resources allocated for the policies and actions promoted in the labour market in 2013 were different from country to country (Figure 2).

**Figure 2 - Financial resources allocated for the measures in the labour market as to GDP in 2013, %**



Source: Developed by the authors based on the statistics of the European Union and the Republic of Moldova

Analysing the information in Figure 2, we can see that the Republic of Moldova is far from the EU Member States in terms of the financial resources allocated for the implementation of the measures applied in the labour market. Compared with Romania, the financial resources allocated in this respect are 15 times smaller in relation to the GDP. Denmark is in the first place in this respect. In 2013, the financial resources allocated to Denmark for such measures amounted to 3.354% of its GDP. Spain follows with 3.312% of GDP, in terms of active measures promoted on the labour market. The large volume of financial resources allocated for such measures is determined by the fact that

Spain, in the post-crisis period, has faced and is still facing a high unemployment rate and the active measures taken in the labour market are meant to diminish this rate.

### **Conclusions**

Employment is a rather important issue that every country is being concerned with. Depending on the employment level we can generally appreciate the level of economic and social development of a country. Thus, the lower the employment rate is, the greater the social problems facing the country are. Analyzing the statistical data presented in this paper, we have found that the employment rate of the labor force in the Republic of Moldova is much lower compared to that of the EU Member States. Given that the employment rate in the Republic of Moldova remains unchanged, if we refer to the statistics in the last five years, then by 2020 the employment will be nearly two times lower than the rate in the European Union.

The employment level depends on the level of professional training of the working population. Statistics show that the employment rate of people with higher education is the highest both in the EU and the Republic of Moldova. Meanwhile, the employment rate among people with vocational education is the smallest, being considered the most vulnerable in the labor market. Therefore, the labor force must have professional training and be able to maintain its competitiveness and lifetime learning.

The low level of employment in the Republic of Moldova compared to that registered in EU Member States is also determined by insufficient financial resources allocated for this purpose. This state of affairs limits the actions of central public authorities from taking serious actions on the labor market that would increase employment.

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## INTERNATIONAL TRADE OF ROMANIA IN THE CONTEXT OF ITS LOW ECONOMIC POTENTIAL

Ionel BOSTAN\*

**Abstract:** *The study provides a view on Romanian economy in terms of its competitiveness and potential for sustaining an efficient foreign trade. After reviewing literature and the reports of prestigious institutions and bodies in the area, the author presents several elements providing an accurate image on current quantitative and qualitative parameters of Romanian foreign trade, the internal and foreign processes influencing it and its main trends. The theoretical, legislative and institutional background of the paper was developed earlier by the author in his monograph - "The legal and financial regime applicable to international foreign trade" published in 2008 by ArtPress Publishing House after Romania joined the European Union. In this study, however, the focus is placed on major changes that have occurred in Romania's foreign trade after it joined the European structures.*

**Keywords:** import; export; intra-communitarian trade; competitiveness; trade balance

**JEL Classification:** A10; F10; F49

### 1. Views on Competitiveness of National Economy

In any stage of society's evolution, the increase of society's competitiveness aims to provide economic sustainability, foreign trade development and the increase of the living standards of the population irrespective of current global challenges (Bostan, 2008). The most important challenges refer to „globalization of economy, opening of international markets, quick technological changes, challenges that should be transformed by Romanian economy into opportunities” (Government of Romania, 2007). A significant importance should be given to the analysis of competitiveness and the identification of solutions for problems faced by Romanian economy. Normally, competitiveness is analyzed based on factors, such as „technology, institutional framework, and the macroeconomic environment, leaving from the premise that a high standard of living cannot be maintained on long-term only by the accumulation of capital without technology (...)” (Government of Romania, 2007). The Global Competitiveness Report (2016-2017) (WEF, 2016) ranked Romania 62 in the top of 138 most competitive countries in the world, dropping 9 places compared to the previous year when it ranked 53, with 4,32 points (Lupitu, 2016).

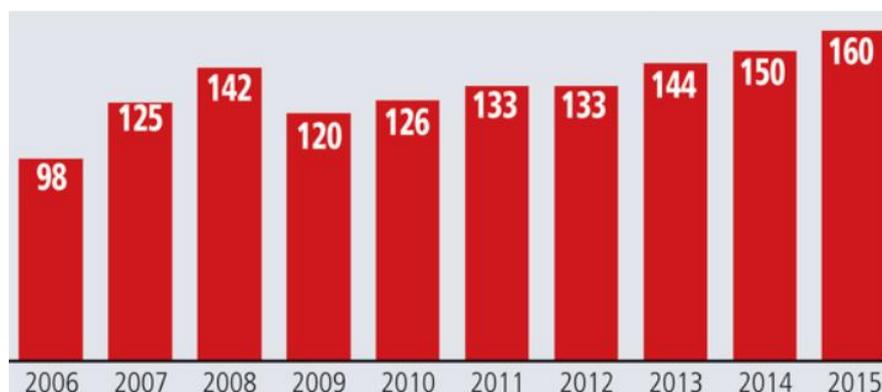
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Switzerland is ranked the first [followed by the USA (5,70 points), the Netherlands (5.57 points), Germany (5.57 points), Sweden (5.53 points) and Great Britain (5.49 points)] and out of neighboring countries, Bulgaria ranks 50, Hungary – 68, Republic of Moldova– 100. The general score of Romania is 4.30 points (compared to 4.32 points last year) on a scale from one to seven. Romania scored low in indicators linked to innovation (position 93 out of 138), business sophistication (ranking 104 in the world) and to institutions (position 92 in the world) and infrastructure (position 88 in the world). It ranked higher in macroeconomic environment (position 28 in the world, the best position of Romania) and market size (position 42). Most difficulties are due to: access to funding, beaurocracy/ governmental inefficiency, taxation, less educated labor force and tax legislation (Soare, 2016).

As generally macroeconomic concerns have been focused on „promotion of competitiveness and employment, continuation of structural reform implementation, improvement of European funding, consolidation of public funding (...)”, it helped Romania (also due to monetary policy and implemented structural reforms) make progress in reducing its macroeconomic imbalances, so it has to maintain its macroeconomic and financial stability (The Romanian Government, 2016). After years of economic crisis, the economic recovery amounted to annual increases of up to 1%, then the growth of GDP during 2013-2015 went back to its annual rate of 3.4%. The increase in 2015 of 3.8% was due to positive impact of domestic demand (in accordance with the previously mentioned source, based on the growth of final spending, private spending grew by 6.1% under conditions of low inflation, interests rates reached a record low and real salary grew significantly; governmental spending increased by 17.6%. In nominal terms, after joining the EU, the GDP of Romania grew significantly (Anghel, 2016a) by 63% during 2006-2015 (Figure 1).

**Figure 1 - Evolution of nominal GDP of Romania during 2006-2015 (bln. Euro)**



Source: Anghel, 2016a

However, the rate of poverty and social exclusion in Romania have been high in Romania compared to other states of the EU (2014) – 40.2% against 24.4% on the whole in the EU-28.

In terms of real convergence, assessed as gaps in GDP/per capita compared to European average, reflected as standard purchasing power, Romanian economy made some progress reaching around 55% of the EU28 average (the same parameter in 2010 was only 52%).

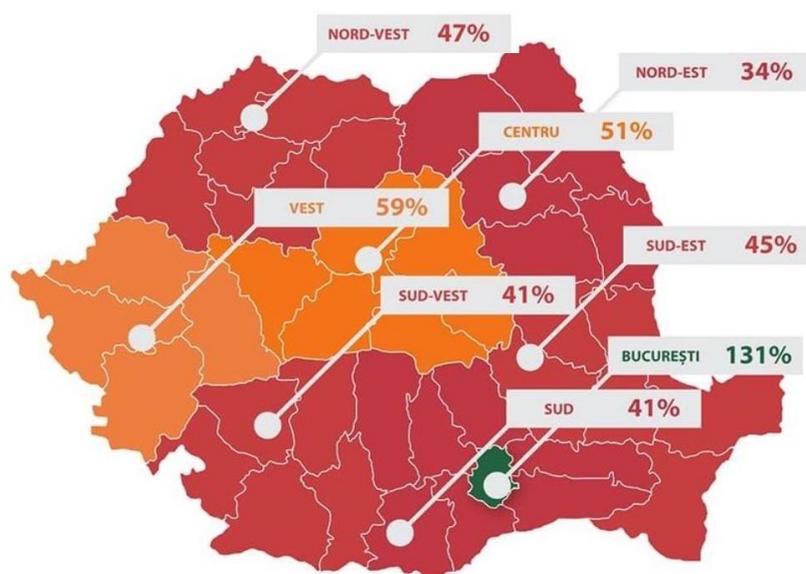
**Table 1 - Average GDP annual growth rate during 2010 – 2015 (%)**

	UE28	Romania
Real growth	1,1	1,8
Deflating	1,8	3,7
Nominal growth	3,0	5,7
GDP growth per capita in PPS (Purchasing power standard)	2,4	5,0

Source: Government of Romania, 2016

As mentioned above, Romania still lags behind European competitors in terms of economic development; it is clearly seen in the level of GDP. On the other hand, the situation seems to be aggravated by the level of regional development in Romania (Figure 2), GDP/per capita varies greatly (Infografic Monitorul Social, 2015). In accordance with the above mentioned source, Bucharest is above other European capitals that have lower GDP/per capita (relative to EU average): Athens (98%), Madrid (128%), Berlin (113%) or Budapest (108%).

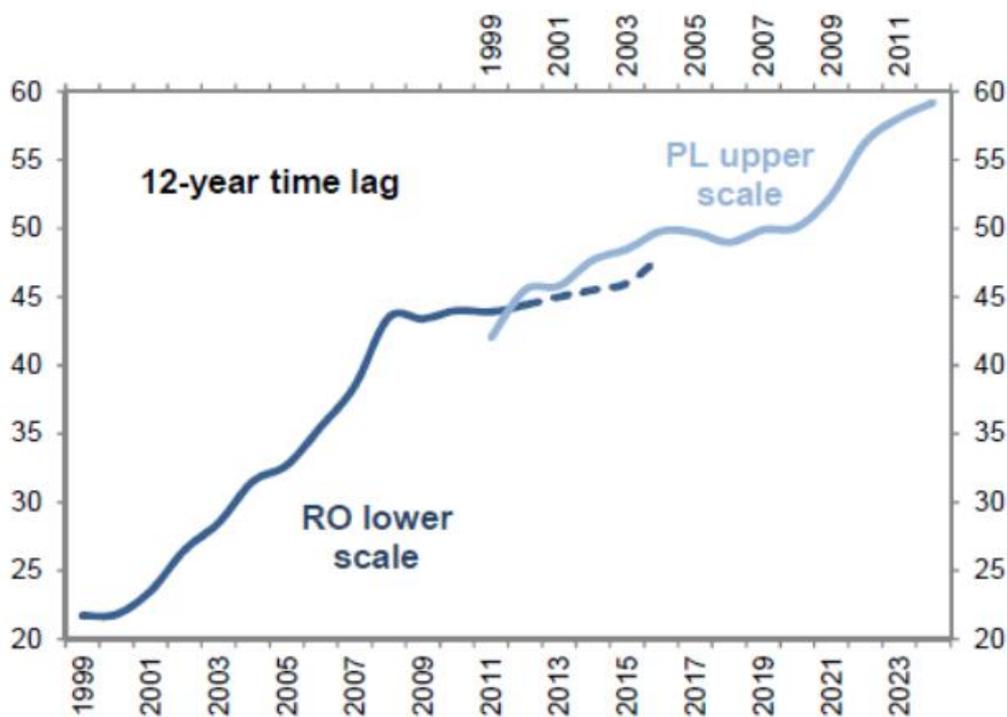
**Figure 2 - GDP/per capita by regions of development relative to EU average (2014)**



Source: Infografic Monitorul Social, 2015

The development of labor productivity – GDP to PPP (purchasing power parity)/ the employed - has grown but the productivity of Romanian economy is less than half of the average productivity in the EU. In particular, labor productivity in Romania is 45% against the European average; we are 12 years behind Poland (Figure 3). Precisely, we grew from a productivity of 22% compared to European average at the beginning of 2000 to 45% – the level Poland had 12-13 years ago (ERSTE, 2015). Meanwhile, the Polish economy reached labor productivity of around 60% compared to European average.

**Figure 3 - Labor productivity in Romania and Poland compared to European average (EU 100%)**

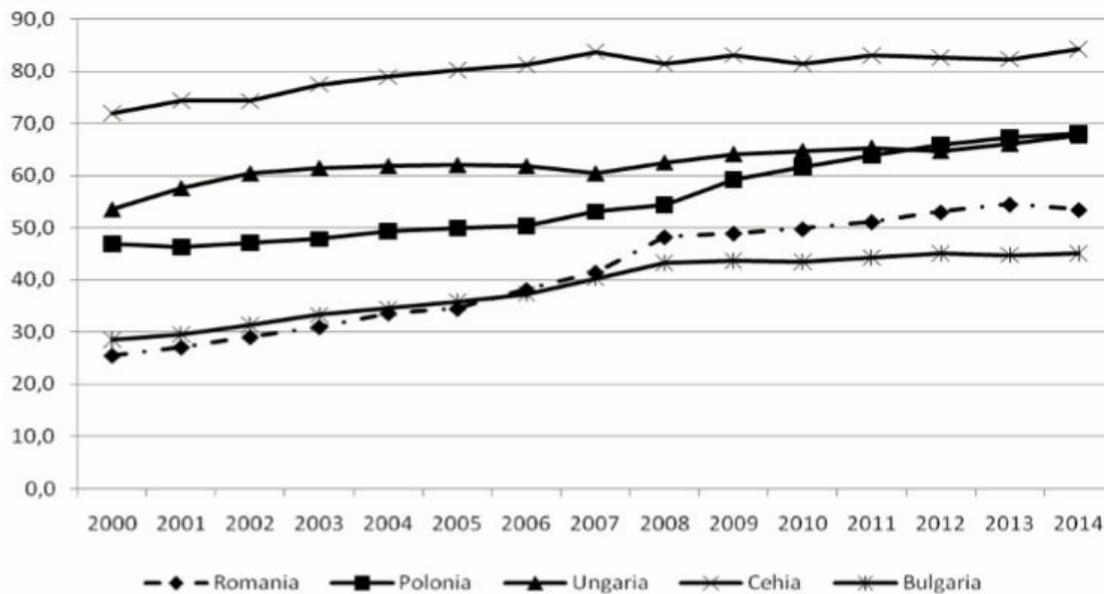


Source: ERSTE, 2015

Similarly, the relative gap between Romania and Hungary was 19% in 2007 (Ghizdeanu, 2015); however, it dropped to 14% in 2014 (Figure 4).

**Figure 4 - GDP per capita in new member states**

- % compared to EU28 -



Source: Ghizdeanu, 2015

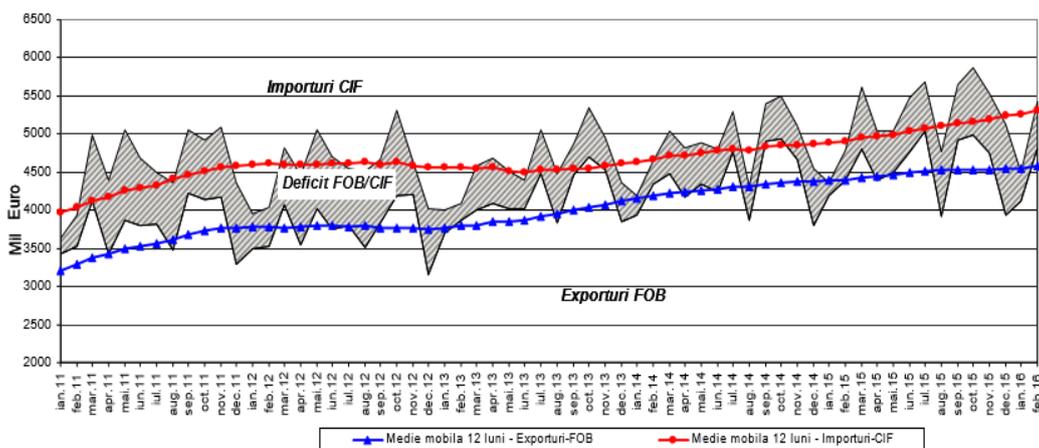
Although, we made references to positive developments, as the earlier mentioned author states „Romania is still below 60% of the EU average, similar only to Bulgaria and Croatia, even if Romania has recorded after 2007 the highest growth rate of GDP to PPS” (Ghizdeanu, 2015).

However, we should note that in accordance with economic development set out in the Convergence Program for 2016-2019 „the real convergence of Romania may get to around 65% in 2018 and the GDP per capita to PPS may reach the level of 70% of the European average by year 2020” (The Romanian Government, 2016); this is the reason why we should observe that „Romania has been improving its real convergence expressed as GDP/capita to PPS even if in a more moderate pace. Currently, the gap is approaching 55% of the European average. Considering that the states which have recently adopted the Euro had their GDP expressed in PPS of over 60% of the European average, it results that the process of real convergence should be accelerated so that the objective to adopt euro be realistic” (Ghizdeanu, 2015). It should be noted that most productivity (added value growth) directly depends not only on technological development but also on increasing product quality, marketing and applying the results of research.

## 2. Current quantitative and qualitative parameters of Romanian Foreign Trade.

As it has been shown earlier, the economic potential of Romania is medium from several perspectives, we will dedicate next section to foreign trade and its evolution. Its traditional forms include (Popa, 1997) **import of goods** (a set of trade operations used to purchase goods from third countries that are brought into the domestic space for productive/non-productive consumption; obviously, services purchased by a specific country from other countries in the area of transportation, insurance, financing, tourism or licensing) and **export of goods** (also trade operations by which a part of produced or processed goods in one country are sold in other countries; services included). Foreign trade development is based on the production of material goods and state's active policy in encouraging, liberalizing and protecting foreign trade (Bostan, 2008, 2016). Long-term development shows that after 1990 foreign trade has had a constant positive development of the following elements: on-going liberalization of trade, especially by reducing customs duties; strengthening regional trade groupings; investment growth in developing countries; revival of foreign trade in Eastern Europe and Russia. On the other hand, economic forecasts show that the tendency for foreign trade growth will continue in the next years in the context of acceleration of global trade integration and the growth of global foreign trade two-fold compared to global economy. It is well-known (Bostan, 2008), *the export and investments* have been in the past years the catalyzes of economic growth. The export of Romania has gone through a positive evolution since 2000 but it has been mainly based on products with low added value. The highest volume of export was recorded in textile industry dominated by the lohn system, followed by metallurgy producing low-alloy steel. Lately, the export of low technology and low resources products decreased, while the export of medium-technology grew significantly. The chart below presents an accurate image on the evolution of exports, imports and trade balance during January 2011-february 2016 (INSSE, 2016) (Figure 5).

**Figure 5 - Exports, imports and trade balance (2011 – 2016/Febr.)**



Source: INSSE, 2016

It may be stated that Romanian exported products are competitive due to price, but not innovation. *Low cost of labor force* is the main dominant source of competitive advantage, an advantage that is slowly decreasing and therefore shaping as the main direction for encouraging internal research and innovation. It is estimated that these will have a positive impact on the reduction of technology and equipment imports and the increase of gross added value for domestic and export products. In 2015 (BNR, 2016), the degree of coverage of imports through exports has dropped by 1.8% reaching 86.3 %. The same document states that „export of goods amounted to 49.121 million Euros, a rise of 4.9% compared to previous year (...). Compared to 2014, the structure of exports by groups of goods shows the increasing share in the export of cars, devices, equipment and vehicles (by 2.7% up to 45.3 %), agri-food products (by 0.2% up to 12%) and other goods (by 0.3% up to 8.2%). The import of goods amounted to 56.897 million Euros, an increase of 7.1% compared to 2014, by 3.755 million Euros”. In what regards *the imports*, their structure by structure of goods „reflects the increasing share in imports of cars, devices, equipment and vehicles (by 1.1% up to 37.8 %), agri-food products (by 1% up to 10.6%), textiles, clothing, footwear (by 0.2% up to 5.9%) and other products (by 0.5% up to 6%)”. The structure of exports by groups of products includes (INSSE, 2016): cars and transport equipment – 48.0%; other manufactured products - 33.2%. The above mentioned show that technology in Romania is mostly imported, local innovation is hard to promote and transfer to local businesses. The high of imports in the past years created negative trade balances („trade deficit for the first eight months in 2016 amounted to 6 133.8 million Euros, approximately 28% higher than in the same period last year; coverage of imports carried out on the basis of exports dropped below 90%, this threshold has been exceeded every year during 2013 – 2015” (Pana, 2016) mainly due to import of cars and industrial equipment aimed to upgrade industrial capacities and to purchase from abroad chemical products, fuel and food. In 2015, the deficit of current account of balance of payments amounted to 1828 million Euros (Table 2), representing 1.1% of GDP compared to 0.5% of GDP in the previous year.

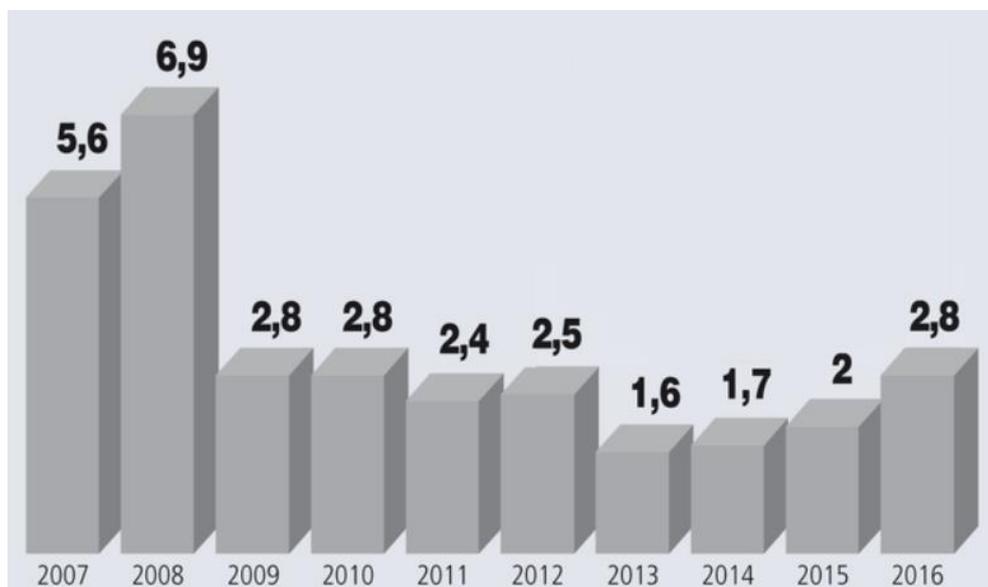
**Table 2 - Current account**

	milioane euro	
	2014	2015
Bunuri	-6 335	-7 776
– export (FOB)	46 807	49 121
– import (FOB)	53 142	56 897
Servicii, net	5 867	6 936
Venituri primare, net	-1 904	-3 806
Venituri secundare, net	1 686	2 818
Sold cont curent	-686	-1 828

Source: BNR, 2016.

The chart below shows the evolution by year of trade deficit (2007-2015) (Anghel, 2016b – since year 2016, only data for the first four months were considered) (Figure 6).

**Figure 6 - Evolution of trade deficit (2007-2015) (since 2016, only data for the first four months were considered)**



Source: Anghel, 2016b

### 3. Internal and International Events that Influenced Foreign Trade of Romania

International trade is highly influenced by two events: internal and external events. Under their influence, Romania was characterized by exports, such as (main products) (Oprea, 2016): cars and related products, wire, cables; oil products; chairs, paintings, panels, consoles, control panels/electricity distribution panels; pneumatic tires; telephones; wheat and corn; pumps (...); compressors, ventilators, aspirating hoods; tobacco; drugs, etc. Also, main imported products include, on first position, car parts and accessories, then, crude oil, drugs, telephones, cars, wires, cables and other insulated electrical conductors; oil products, etc.

Concerning internal documents, we will refer to *trade regulatory framework*. Considering the context of our country after 1989, the most important undertaking that had to be made was the development of a new trade legislative framework which was generally mad, the most significant measure, to begin with, was the adoption of Law 31/1990 on the set-up and operation of companies that ensured the legal framework for the set-up of new entities: public limited liability companies, limited liability companies, limited partnerships, partnerships limited by shares, family associations. Until the accession to the European Union, the main package of specific regulations allowing the continuation of foreign trade and providing conditions needed to attract foreign investors had already been implemented, as well as the main mechanisms for the operation of Stock Exchange and Secondary Market Stock Exchange (RASDAQ). Then, foreign currency regulations had been changed and improved by successive amendments so that today there are adequate mechanisms supporting in good conditions Romania's foreign trade.

*Besides regulatory framework, we should also consider the framework regulating the tax system.* It also had a contradictory and sinuous evolution with almost 100 types of different taxes that companies have to pay but the introduction of 16% flat income tax in 2005 resulted in significant positive changes. In terms of internal events, *foreign investments* also had a significant impact on foreign trade of Romania. In 2015, the foreign direct investment net inflow (ISD) reached 3 461 million Euros (BNR and INSSE, 2015), out of which (i) 3 595 million Euros own equity (ownership interests in FDI of enterprises amounting to 3 085 billion Euros and reinvested earnings in FDI of enterprises worth 510 million Euros) and (ii) 134 million Euros net credit from foreign investors. The final balance of ISD at the end of the same year amounted to 64 433 million Euros, out of which: (i) 45 098 million Euros own equity, including reinvested profit (70,0%) and (ii) 19 335 million Euros net credit from foreign investors (30.0%). The need for foreign investments is obvious as the country

cannot ensure its development only using its internal resources. On the other hand, it may provide, besides the injection of capital, transfer of technology, improvement of management strategy and the revigoration of export production.

*Global division of labor* is among foreign events influencing Romania's foreign trade; it is the process of international specialization in the production of national economies developed over time and which sets the basis for their relations (Clipa, 1998). It indicates the place of different economies in global economy and represents the material foundation for international economic flows. In the post-war period, the formation and deepening of the global division of labor has been significantly influenced by at least two events: the collapse of the colonial rule which led to the creation of more than new states, as well as the modern scientific and technical revolution. The latter is the most driving factor for global economy and foreign trade with all its aspects (Suta, 2000). Romania, as the member of international community is no exception to what has been mentioned above, it has been actively engaged in international exchange of material and spiritual values benefitting from the advantages provided by global division of labor. Also, we cannot elude the existence of *globalization* manifested by (Gilpin, 2004): production and technology internationalization; stock exchange globalization, internationalization of services markets and integration of global financial markets. *International and regional economic integration* is extremely important for our discussion as it involves the absence of discrimination and its progressive elimination in the relations among countries, thus contributing to the stability and economic efficiency of these relations. In accordance with the previously cited author, the stages and types of economic integration include the following: preferential trade agreement, free trade area, customs union and the economic union. The main effect of economic integration is that it may lead to trade development or deflection, in other words, integration creates both the element of trade liberalization, at least between neighboring countries, and also leads to a discriminatory effect.

*Integration of Romania to the European Union.* Our country started its relations with the European Union in 1980, it was the first agreement signed with a country in the East (Diaconescu, 2003). The next trade and cooperation agreement was signed in 1991 and the negotiations for signing the Association Agreement with the European Union began in 1992, the agreement signed in the same year together with Bulgaria, the Czech Republic, Hungary and Poland.

Based on the Strategy aimed to prepare the accession of the associated countries in Central and Eastern Europe and to implement measures stipulated in the White Book of the European Commission on the support provided for these countries in the process of integration, Romania implemented its integration into European structures through four means: the implementation of the

Association Agreement and the national programs aimed to harmonize the internal and communitarian development and the creation of institutional structures facilitating access to the internal market of the European Union, participation in the structured dialogue with the institutions of the European Union, management of the integration process. All 31 chapters, which Romania had undertaken to open, were finalized during 2004 and it became the member of the European Union on January 1, 2007 after signing the Accession Treaty on April 25, 2005. Obviously, various trade policies had been operating during this period that included all legal, administrative, tax, budgetary, financial, banking, foreign currency regulations adopted by the state promoting or limiting foreign trade or protecting national economy against foreign competition (Rainelli, 2004; Miron, 2003). These regulations developed in three directions: promotion of foreign economic relations, (export boosting), national economy protection against foreign competition (control of exports) and achievement of a dynamic equilibrium between trade and payment balance together with strengthening the state's foreign currency reserve. Trade policies under GATT and OMC are put into practice using instruments and measures of tariff (customs duties), non-tariff and promotional nature. Certainly, we may also mention here budgetary measures for stimulating exports (related to increasing the competitiveness of exports and increasing the degree of attractiveness for producers and exporters as to boost the delivery of goods to be exported) and financial and banking measures related to: export credits and provision of insurance and guarantee for export credits.

The main changes that appeared in foreign trade of Romania after its accession to the European Union refer to the following (Oprea, 2016): (1) The countries to which Romania has exported/imported intensely compared to the period before 2006, prior to its entry to the European Union are the member states of the European Union. Therefore, „Intra-communitarian trade (with 27 partner member states of the EU) increased its share amounting to 73.7% in export and 77.2% in import in 2015. In 2015, the first 10 partner countries account for 64.1% out of total value of exports, highest share belonging to Germany, Italy, France, Hungary, the United Kingdom, Turkey, Bulgaria, Spain, Poland and the Netherlands.”; (2) The exports of Romania to Russia also decreased reaching „the highest level in 2014 (almost 1.5 billion Euros) and since 2015, the exports have decreased by 31.7% compared to 2014”. In terms of imports from the Russian Federation, these amounted in the same year to „2.0 billion Euros, a decrease of 12.6% compared to 2014. The highest share of imports from the Russian Federation were in crude oil (50.7%), followed by oil products (25.6%), with 2.4% in natural gas out of total imports with the Russian Federation 2015. Romania's imports of crude oil from the Russian Federation amounted to 34.8% in 2014 and 43.8% in 2015”.

## Conclusions

The literature review enabled us discover that currently two phenomena lie at the basis of the growing integration of global economy: the technological one, due to explosive development of the speed and efficiency of communications and international transportation along with their cost reduction, and the economic phenomenon, represented by the reduction and elimination of national barriers to international flows of goods, services, technology and capital. Although Romania has made progress lately, it is still behind its main international/European competitors in terms of economic development. The Romanian export has had a positive development since 2000, although it has been mainly focused on products with low added value. It may be stated that often exported Romanian products were competitive in terms of their price and not innovation. Specific improvements have been noticed after the year 2007 when Romania joined the European Union. Although the progress has been limited, there may be noticed a positive tendency in the improvement of foreign trade structure. We believe that with a more vigorous economic growth, Romanian products will become more competitive abroad. The more acceptable structure of imports and exports may provide positive results. But, a real growth in the competitiveness of Romanian economy is needed, as well as the development of a secure and dynamic e-business environment, so that SMEs may benefit from multiple opportunities, as it is well-acknowledged that e-business depends on progress that leads to cost reduction and access to internal and foreign markets.

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## THE ROLE OF THE “NEW COLD WAR” CONCEPT IN CONSTRUCTING RUSSIA’S GREAT POWER NARRATIVE

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**Abstract:** *For the past two years, since the annexation of Crimea (2014), there is strong evidence to confirm that the relations between the West and Moscow have deteriorated. As conflicts are unfolding both in Eastern Europe and the Middle East, the tensions between the United States and Russia are at their highest point since the end of Cold War. In this context, the concept of “New Cold War” started to be more frequently used in Western media and think tank analyses, but also in Russian high officials’ discourses. The concept was frequently used as a metaphor in public discourse with various tensed occasions in the last 2 decades. But it was most frequently used after the events in Ukraine. The main purpose of the article is to investigate the present context in which this concept is being used in relation with the main premises of Russian foreign policy. We are initializing our research with our research question: “How the “New Cold War” concept fosters the idea of the Russian Federation as a great power?”. This paper argues that the “New Cold War” is a symbolic concept used to strengthen Russia’s great power narrative. Using constructivists’ arguments of the international relations theory, we will examine this idea and will observe how this social construct helps Russia to strengthen its great power and offers a new interpretation to the international environment.*

**Keywords:** Russia; New Cold War; Great Power narrative; Socialization; foreign policy

### Introduction

The Ukrainian crisis and the annexation of Crimea have opened a new chapter of divergences between the West and Russia. While the United States and the European Union adopted economic sanctions on major Russian state companies, banks and several high level officials for the annexation of Crimean Peninsula (BBC, 2014), Russia responded by banning certain EU agro-food products (McEldowney, 2016). Moreover, in April 2014 NATO suspended all practical cooperation with Russia, including NATO-Russia Council (only three meetings for the past two years, all of them in 2016) (NATO, 2016a).

Numerous events that occurred in the 2014-2016 period deepened further the shaken cooperation between the West and Russia: from Russia’ support of the far-right parties in Europe<sup>1</sup>, to

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<sup>1</sup> As was demonstrated by the research conducted by Political Capital Institute entitled “The Russian connection, the spread of pro-Russian policies on the European far right”, published on 14<sup>th</sup> March 2014 and available at: [http://pdc.ceu.hu/archive/00007035/01/PC\\_Russian-Connection\\_2014.pdf](http://pdc.ceu.hu/archive/00007035/01/PC_Russian-Connection_2014.pdf), last accessed on 21<sup>st</sup> August 2016.

MH17 Malaysia plane crash in Donbas (above the area controlled by the separatists) with a Russian-made surface-to-air BUK missile (Parket, 2016), to Russia’s support for the al-Assad Government and its involvement in the Syrian conflict, to the alleged Russian hack on the American elections and cyber-attacks on American media outlets<sup>2</sup>. In addition, disagreements concerning the implementation of the Minks Agreements and recent tensions between Kiev and Moscow about an alleged “terror” claim conducted by the Ukrainian intelligence services in Crimea<sup>3</sup> complicate furthermore the relations. In the same time, the European Union and the US announced that they will continue with the economic sanctions (European Council, 2016) and NATO will deploy four battalions on Eastern Europe for deterrence purposes (as decided in the Warsaw Summit in July 2016). Those decisions have more reasons for observers’ claims that Russia and the West are on the verge of a “New Cold War”.

Within this context, more and more Western media, think tanks or various academic voices are speaking about the concept of “New Cold War”. Not only Western outlets are using this concept, but what is even more challenging is that also high officials from Russia started to refer to it in public discourse. Most recently, during the 52<sup>nd</sup> Munich Security Conference in 2016, Russian Prime Minister Dmitry Medvedev declared that “The political line of NATO toward Russia remains unfriendly and closed. It can be said more sharply: We have slid into a time of a new Cold War” (Meyer *et al.*, 2016), warning that the Western countries and the US do not follow any more the Post-World War II security architecture that brought peace and stability to the continent and the only way to avoid it is through cooperation. While Jens Stoltenberg, the Secretary General of the Alliance, in the statement of the NATO Summit in Warsaw, dismissed the allegations of a possible new Cold War by saying that: “*NATO doesn’t seek confrontation, we don’t want a new Cold War. The Cold War is history, and it should remain history*” (NATO, 2016b).

Nevertheless, there is a shared view expressed by a segment of influential international experts stating that starting with 2014 the relations between the United States and Russia are “*at their lowest point since the end of Cold War*” (Stavridis, 2016). Moreover, as Michael Ignatieff suggests, the Ukrainian crisis highlights the new structure of the post-Cold War order as “*we seem to have the re-problematisation of post-Soviet borders everywhere from the Baltics, through the Balkans, through Poland, through Romania, through Georgia*” (Ignatieff, 2014, p. 4). Beyond various contradictory

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<sup>2</sup> These alleged Russian cyber-acts are still under investigation. Source: <http://www.reuters.com/article/us-usa-cyber-media-idUSKCN10Y21I>, last accessed on 23<sup>th</sup> August 2016.

<sup>3</sup> More on this subject: “Russia Accuses Kyiv Of Plotting 'Terror' In Crimea; Ukraine Denounces Moscow's 'Fantasies'”, in Radio Free Europe, published on 10<sup>th</sup> August 2016 and available at: <http://www.rferl.org/a/crimea-fsb-ukraine-incursion/27912985.html>, last accessed on 11<sup>th</sup> August 2016.

opinion, one thing is evident that tensions have rose between the US and Russian Federation on frictions concerning the conflict in Eastern Ukraine and the annexation of Crimea, different views regarding possible solutions for the Syrian crisis and the buildup of NATO and its troop exercises near the borders of Russia. And Russia's dissatisfaction, together with its concerns for the security of Kaliningrad are leading to a downgrade to a Cold-War mentality that was translated in practice, in the spring of 2016, in two risky manoeuvres of flyover of Russia's over a U.S. warship in the Baltic Sea and a U.S. aircraft in the international space nearby (Stavridis, 2016).

Keeping in mind the situation briefly described above, this article will analyse the concept of the "New Cold War" and particularly how this concept is used by Russia in the international community to reinforce the country's great power status and the projection of its position/role in the new world order. We are initializing our research with our research question: "How the "New Cold War" concept fosters the idea of the Russian Federation as a great power?". During this paper, we will assess the assumption that the "New Cold War" is a symbolic concept used to strengthen Russia's 'Great Power Narrative' (GPN).

Inside the paper we opted for a qualitative approach. We will use a mix of descriptive and explanatory studies with the purpose of analysing the existing data, to find a suitable academic explanation for the research question. The data analysed includes primary sources (online discourses and official documents) and secondary sources (books, academic articles, think tank papers, journalistic sources). Because of language barriers, the main understanding of the "New Cold War" term employed in this research is based almost entirely on Western sources. Therefore, the author comprehends the danger of having a bias interpretation but tries to limit it by using more empirical Russian data that are available in English. The primary sources (online discourses and official documents) are mainly Russian. For this analysis, we will analysis three types of Russian data: (a) the official narrative (represented by official documents and discourses of the Russian leaders with a focus on the narratives of President Putin, the Russian Ministry of Foreign Affairs), (b) experts' narratives (here we will analyse three leading think tanks: Carnegie Moscow, the Valdai Club and Russian International Affairs Council) and (c) the media representation of the subject (three important Russian media outlets were selected: Russian Today, Sputnik and the Moscow Times). It is important to mention that we will work with the English version of the texts of the chosen sources. The period analysed is between 2013 (with the publishing of the Foreign Policy Concept 2013) until the launch of the 2016 Foreign Policy Concept of the Russian Federation. As a methodological framework, we will use foreign policy analysis, understood as "*the process and resultants of human*

*decision making with reference to or having known consequences for foreign entities”* (Hudson, 2005). Since foreign policy analysis is a wide umbrella which includes multiple determinants that influence foreign policy decision makers and foreign policy decision making, this paper will have a multifactorial and multilevel ground. Therefore, during the research we will employ both discourse analysis and document analysis because they offer us an important insight into Russia’s foreign policy in relation with the West.

The theoretical paradigm that will be employed during this research is constructivism. Constructivism is an international relations approach that places ideas, interests, norms at its core. We will focus on Alexander Wendt’s constructivist premises, thus the indicators that will be used in this paper are: identity, the normative structure and the socialization process. Identity, as defined by constructivists, represents the construction of the self in opposition to an “other”. The constructivist approach do not take identity as fixed but rather claims that the actors (states) constructs their identity from history, previous interactions, norms and values. It is important to mention that since identities are constructed through interaction, they can alter (Baylis *et al.*, 2011).

As defined by Wendt, a normative structure (the international system) constructs the identities and interest of the actors but also the interactions between the actors may lead to the replication or transformation of the structure (Wendt, 1992). The third indicator, the socialization process is “*a causal process of learning identities and interests through social interaction.*” (Wendt, 1999).

The analysis will first present the various conceptualizations of “new Cold War” and the various meanings attached to it in different contexts. In the second segment, we will highlight the most important events of Russian external relations that recalibrated the country’s foreign affairs agenda (starting already with 2007) with the objective of regaining the image of a great power on the international arena. The last part of the paper will analyse, using the constructivists indicators mentioned above, the reasons why Russia uses the “New Cold War” concept, its success in constructing the Russia’s great power narrative in the international community, and how this term is employed by Russian foreign policy.

### **1. Conceptualizing the “New Cold War”**

The Cold War was a significant historical period that shaped the behaviour of the world for more than half of century. The fundamental characteristic of the Cold War period was its clear bipolarity that divided the world in two camps on the West-East sloap (on one side there was the Western Bloc, led by the United States and on the other the Eastern Bloc with the Soviet Union in

charge), which was sustained by a fierce ideological battle (liberalism/capitalism versus communism/socialism). During this period, both parties tried to ‘demonize’ the enemy and fabricate ominous attributes about the other. Moreover, other important elements include the existence of two military alliances (NATO vs. the Warsaw Pact), two different economic systems, the threat of mutual nuclear annihilation, proxy wars. The appeal to reason, morals, law or the attempt to understand the other’s point of view was disregarded in favour of oneself’s interests and ideas.

For the past twenty five years, speaking about the end of Cold War was a leitmotif in international relations. But as Michael Cox underlines, using analogies to the past to understand the current events was an overused recurrent exercise even though a legitimate one (Cox, 2014). Therefore, the literature is abundant with articles referring to the “Cold War” and analogies of a new “Cold War”. From ideas that associate global terrorism to a new cold war (Buzan, 2006), to analogies to religious nationalism (Juergensmeyer, 1993), or energy security (Kandiyoti, 2015; Ciuta and Klinke, 2008) to US-China relations (Shambaugh, 1995), or the confrontation of political Islam with the Western model (Salla, 1997), and more recently Cyber espionage (Jones, 2016) and cybersecurity (Moss, 2013), these are just few attempts of the past two decades to categorize some international events according to history and integrate them into a familiar framework. The concept of Cold War is “*a contemporary international relations metaphor for a fundamentally strained relationship that cannot be resolved within the framework of the world views of either party but requires a rethinking of both*” (Sakwa, 2008, p. 26).

The frequency of the term “New Cold War” both in academia and mass-media has reached a high level with the Ukraine crisis and the worsening relations of the West with Russia. For Legvold, the annexation of Crimea by Russia is the starting point of the new cold war. In his conception, this war will be different from the original in intensity and ideology. Even if it will have an effect on the international affairs it will be a limited war between Russia and the West. Moreover, some of the patterns that were distinct for the Cold War (ideology driven objectives) are lacking but the political animosity is replacing that gap (Legvold, 2014).

The “New Cold War” concept does not have a commonly acknowledged definition and that is why various experts have different approaches to the term. Some scholars consider that we are already in a new Cold War regardless of the fact that this one does not have the characteristic elements of the classical one (Cohen, 2014). Acknowledging the profound changes that Russia faced since the demise of USSR and its integration into the capitalist system, its actions towards its neighbours, its rising

nationalist discourse, its perception as a great power and its anti-West attitude are characteristics common to the Cold War mentality and should not be disregarded (Cox, 2014).

Others like Gromyko consider that a new Cold War is most unlikely since the world in which we live is a poly-centric one. Nevertheless, the author doesn’t deny the re-appearance of opposing political and military alliances with a different ideological path, either real or constructed. On this argument, he suggests the idea of a possible “small Cold War” that will be limited in action and impact (Gromyko, 2015).

For Richard Sakwa, a “New Cold War” represents the results of the inability to efficiently prevail over the structures and sentiments that accompanied the “original struggle” (Sakwa, 2008). Nevertheless, since the world is not split anymore between the two rival ideological projects used by the US and Russia, the conditions for a Cold War reappearance following its classical patterns are not present. In his view, bipolarism is not valid any longer as the relations of Russia with the United States do not represent anymore the nucleus for the world politics (Sakwa, 2008).

While some scientists are already admitting the existence of a New Cold War world, others are declining this assumption.

As we can see from the definitions presented above, there is not a unified acceptance of the possibility of a new Cold War, its characteristics or the type of its impact. The common ground found in the literature review is that all authors support the idea that a return to the bipolar system it is improbable as the structural changes held for the past twenty-five years both in Russia and the U.S. and the appearance of other important political and economic players (China, India, Japan, Brazil, the European Union) makes the idea of a clear demarcation between two politically-military blocs impossible. In addition to the elements presented in this section, we want to accentuate that the transformative nature of the globalized system created a dependency between states that cannot easily and without enormous cost can be rearranged.

While we are accepting the fundamentals of the “New Cold War” concept (the political animosity between Russia and West, the probability of a small scale conflict, the nuclear threat and the fact that an eventual “new Cold War” will be low in intensity and territorial impact), we depart from the other definitions by stating that we consider this term to have a strong symbolic meaning. The distinction is that we view the “New Cold War” as a tool that can play an ideological purpose if empowered by policy makers.

## **2. Russia's foreign policy: from accepting the global status-quo to challenging it**

The end of the Cold War was represented by the breakdown of the Soviet Union. The new international status of Russia was completely different as the state has lost its global power status and faced international humiliation, when the government had to default on its debts in 1998. Therefore, there is no surprise that the dissolution of USSR is viewed in Russia as a “major geopolitical catastrophe” (Dadak, 2010).

In his article “*New Cold War*” or *twenty years' crisis?*, Richard Sawka introduces the idea that the end of the Cold War was asymmetrical since one side (Russia) has renounced to its Cold War structures (even the ideological ones) while the other had preserved and even strengthened them (e.g. NATO was not replaced by a common collective security regime, it was maintained and enlarged). The author also states that these changes, in the '90s, were accompanied by internal asymmetries within the political transformation of Russia. While the country had given up on its ideological and geopolitical alternative systems to the capitalist order and to the military political blocs, it preserved its civilizational identity and ambition to take part in the world's leadership. The fact that the West acted as having the right to impose its values and norms on Russia was eventually considered intrusive and humiliating thus exacerbating the already complicated internal transformation of Russia (Sakwa, 2008).

Both the domestic and international environments of Russia started to change with the coming to power of Vladimir Putin. In his first mandate as president, even though there were disagreements regarding the United States' international approach, Russia's foreign policy carried on a non-confrontation foreign policy that accepted the unipolar world order. The first term of Putin was focusing more on the economic development of the country and securing the state from external threats (terrorism being the top-tier) (Tsygankov, 2008a).

As most scholars state, a visible change in foreign policy can be seen starting with 2005. The American intervention in Iraq, the coloured revolutions of Ukraine, Georgia and Kyrgyzstan (2003-2005), the Washington global policy of democratizing and liberating, NATO's enlargement towards including former Soviet states, and the 2007 United States declaration of building up a missile defence system in Eastern Europe were considered by Russia as security vulnerabilities that should be addressed (Tsygankov, 2008a). In this regard, assertiveness became a new length of Russian foreign policy. By assertiveness, the state “*no longer accept[ed] the status of a West's junior partner*” but rather started to carry out a confident foreign policy, based on Russians national interests with the

objective of fostering security, economic development and stability (Tsygankov, 2008a). This new foreign policy shift is comprised in a new foreign policy report called “A Review of the Russian Federation’s Foreign Policy,” that was published by the Russian Foreign Ministry on 27 March 2007. The document describes the Russian Federation “great power pragmatism” and introduces the concept of multipolarity, which is constructed around the idea of “*a more equitable distribution of resources for influence and economic growth*” (Tsygankov, 2008b)

This foreign policy turning point was also translated into practice. In Putin’s speech held at the 43<sup>rd</sup> Munich Security Conference, he manifested his grievances with the international system architecture. The “unipolar world” is to be blamed for “*an almost uncontained hyper use of force – military force – in international relations...that is plunging the world into an abyss of permanent conflicts...One state and, of course, first and foremost, the United States, has overstepped its national borders in every way.*” (Putin, 2007a). The fractions of Russians with the international order was also expressed at the 62<sup>nd</sup> anniversary of the Victory Day when Putin, in his public remarks, in which he indirectly blames the US for dominating the world and imposing its system: “*We have a duty to remember that the causes of any war lie above all in the mistakes and miscalculations of peacetime, and that these causes have their roots in an ideology of confrontation and extremism. It is all the more important that we remember this today, because these threats are not becoming fewer but are only transforming and changing their appearance. These new threats, just as under the Third Reich, show the same contempt for human life and the same aspiration to establish an exclusive dictate over the world*” (Putin, 2007b).

Not only Putin, but also Medvedev (at that time president of Russia) in the 2009 annual address to the Federal Assembly of the Russian Federation had claimed that: “*The foundation of my vision for the future is the firm conviction that Russia can and must become a global power on a complete new basis*” (Medvedev, 2009). These speeches represent a transposition in Russia’s acceptance of the unipolar system and signals that the relations of the country with the West can degrade. Moreover, it is a clear sign that Russia’s adoption of a more assertive foreign policy is translated into practice by a more bold, strong attitude in which Russia renounced to the idea of proving that it is a great power and started acting as one (Rotaru, 2014).

Russia’s great power status was not just an abstract idea, it encompassed also foreign policy and security objectives. The main objective, (to promote its national interest), led to a move to authoritarianism, European energy security concerns, Russia’s meddling in the neighbours’ internal affairs that worsened the country’s relations with the West (Rotaru, 2014). Following Russia’s great power rationale, the Russo-Georgian war of 2008 represents a clear message that the Russian

Federation still views the post-Soviet region of the Commonwealth of Independent States (CIS) as a vital area for the Russian interests. A proponent of a multipolar system, the Russian Federation perceives its vicinity as essential for its security and foreign policy ambitions. In order to make sure that the states from its “privileged” interest region remain under Russian influence, methods of political, economic, energy, military pressure, and hard power instruments were used. Georgia was the example that Russia is willing to use military methods when other instruments fail in order to preserve its strategic foreign policy and security objectives (Wieclawski, 2011).

An important lesson for West from the Russia’s intervention in Georgia was that Russian leadership ignored the Western warning and sanctions and started caring on an independent stance within the international system (Wieclawski, 2011). In this regard, Russia increased its collaboration with some Latin American countries (Cuba, Venezuela) that were averse to the US foreign policy in the region. This was a clear message from Moscow that any United States’ engagement in Russia’s sphere of influence will be reciprocated by strengthening of the Russian Federation relations with US neighbour states and countries that are reluctant to the American hegemony (Wieclawski, 2011). This was a piece of puzzle in a bigger picture where Russia’s foreign policy goal was to diversify its diplomatic ties. In this regard, Russia’s initiative of creating BRICS (Brasil, Russia, India, China, South Africa) had the purpose of providing the Russian state with a special status, a liasson between the West and Est. In practice, this politico-economico-cultural alliance had also the scope of balancing the Western influence and to highlights Russia’s leading role in the international community (Salzman, 2014).

The “back to business” approach between West and Russia and the Obama’s reset policy on the US-Russia relations (The White House, 2010) were indicators for Moscow that the United States and the European Union do not have a clear, unite and coherent stance and response, and were not willing for Georgia’s sake to sacrifice their collaboration with Russia. This message reinforced Russia’s risk taking attitude in foreign policy.

For Fyodor Lukyanov, the five days war represents a turning point in the foreign policy of Russia as *“It was proof that Moscow can say no. The United States and its allies were shown that Moscow was serious about drawing a line in the sand. They accepted the signal.”* (Lukyanov, 2011). According to the author, this follows two decades of Russian frustration with NATO’s expansion and a warning from Moscow that Ukraine and Georgia are beyond the crossing line that the West can cross.

As a follow-up of Russian intervention in Georgia, the 2013 Concept of the Foreign Policy of the Russian Federation, adopted by the Russian Government, represents a conceptualization into a strategic document of the country’s external relations objectives, views, and priorities for the next seven years. A main goal of Russia, according to the concept, is to secure “*its high standing in the international community as one of the influential and competitive poles of the modern world*”. Russia’s important role and priorities in the emergence of a new world order are clearly defined as the state’s intention to “*establishing a just and democratic system of international relations based on collective decision-making in addressing global issues ...as well as on equal, partnership relations among nations*” (The Ministry of Foreign Affairs of the Russian Federation, 2013).

The dissatisfaction of Moscow with NATO is also presented in the document: “*Russia maintains a negative attitude towards NATO's expansion and to the approaching of NATO military infrastructure to Russia's borders in general as to actions that violate the principle of equal security and lead to the emergence of new dividing lines in Europe.*” In addition to that, regardless of the attempt of normalizing the American cooperation with the state, Russia’s perceptions of the US actions are still negative and warning, as the strategy suggests: “*Russia expects that US actions in the international arena will be strictly guided by international legal norms, primarily the UN Charter, including the principle of non-interference in domestic affairs of other states.*” (The Ministry of Foreign Affairs of the Russian Federation, 2013).

The most important foreign policy action of the Russian Federation since the end of the Cold War were the annexation of Crimea in the spring of 2014 and the intervention in Eastern Ukraine. Russia by breaking the principles that sustain the European security system and challenging the international system order might provoke possible serious consequence for the international law and norms, inplaced by the United Nations, whose permanent seated member Russia is (Allison, 2014).

Russia’s annexation of Crimea in spring 2014 is in line with the Russian coercive actions taken to pressure Ukraine. Regardless of the many interpretation towards Putin action to seizure the Crimean Peninsula, either if he is a “defender” thus reacting to the security threats posted by a NATO expansion in Ukraine and the loss of Russia’s Black Sea Fleet; or either as an “imperialist”, a part of a greater agenda to reintegrate in the Russian state former territories of the USSR; or as an “improviser”, view that supports the hypothesis that Putin’s decision to occupy Crimea was more a spontaneous, risk-taken decision than as part of a larger geopolitical agenda; the action represents an unthinkable reaction that overthrew the post-Cold War European order (Treisman, 2016).

For the past two years, Russia’s actions in Ukraine and Syria are visible signs that the country wants to restore its status as a global power and only with an “iron fist” can Russia stop the Western

expansion (Lukyanov, 2016). Through this logic, we can understand the annexation of Crimea and supporting the conflict in Eastern Ukraine, as a way through which Russia is trying to make sure that Ukraine will not be able to join neither NATO nor the European Union. Russia could not lead Ukraine to adhere to the European system (by continuing its Association Agreement process within the Eastern Partnership) for two reasons: first, such thing would have created a risk that Ukraine (through the implementation of the reforms) to successfully become a model for the other Post-soviet states and therefore to undermine Putin's regime legitimacy in Russia (Menkiszak, 2015-2016). Moreover, by intervening in Syria, Moscow not only had succeeded in strengthening the position of al-Assad but also leveraged the U.S. to negotiate with Russia on an equal basis. Apart from that, Russia also prevailed to increase its international image as a global power, moving the attention from the Ukraine conflict; protecting its naval resupply basis in the Mediterranean Sea, fighting terrorism and Islamists (Itani and Abouzahr, 2016).

The Russian successful strategy in Syria demonstrated its military aptitude and expertise. Nevertheless, since Russia is fully aware of its military capacity comparing to the one of the United States, being outgunned and investing less on defence, its policy is trying to maximize its advantages and not to provoke a military confrontation (Rumer, 2016). In cases where military risks are too significant, other tools will be used. In this context, we can understand the military intervention in Syria as a somehow safe bet while the idea of a classical attack on Baltic states will never be carried out since it can lead to a retaliation from NATO and the danger of nuclear annihilation (Rumer, 2016). For other cases, in order to make these countries doubt NATO's commitment to protect them, tools from Russian "hybrid war" will be used: from cyber-attacks, to disinformation, propaganda and airspace violations.

The past three years (2013-2016) were abundant in external events for the Russian Federation and all the changes in the country's foreign policy but also its objectives, priorities, views were gathered in a new Foreign Policy Concept, that was published on the 1<sup>st</sup> of December 2016. Built on the previous document, the current concept presents the way how Russia perceives itself and its relationship with the rest of the world. An important change from the 2013 Foreign Policy Concept lays in the way how the Russian Federation sees the international order. For the first time, in a strategic document, Russia declares that the past event had led the "*to the emergence of a multipolar international system.*" (The Ministry of the Foreign Affairs of the Russian Federation, 2016). Other modifications in the Russian foreign policy refers to Russia's goal to engage more in solving the world's problem (where the fight against terrorism plays an increased role), conducting an equal-

based relation with the United States (the collaboration between the two countries is focusing on arms control; the Eurasian Economic Union is presented as being a bigger priority than the Commonwealth of Independent States (CIS). In addition, the document also expresses Russia’s desire to strengthen its bilateral relations with the European countries (Germany, Italy and France in particular).

### **3. The “New Cold War” concept and its place on the Russian foreign policy agenda**

Russia’s re-emergence as a great power culminates with the changes in Russian foreign policy and security made during Vladimir Putin’s mandate. If in 2007-2008, the scholars’ perception was that Russia was in a crucial moment of changing its future, a crossroads between choosing the “menace” way or the “salvation” way (Galbreath, 2008) and the possibility of a new cold war was something still hard to comprehend, today we can observe that Russia under Putin’s leadership carried on a series of foreign policy and security actions that have provided the country with a stronger voice within the international community and has got the attention that it sought.

In this section of the article, we will research how the concept of the “New Cold War” is used to foster the recognition by the international community of Russia’s great power status and to project the start of a new world order, a multipolar system. Using constructivist indicators, we will present how an analogy to a past event (Cold War) is used by Moscow to gather the international attention towards projecting itself as a leading world power. The primary sources are mainly Russian sources.

For this analysis, we analysed analysis three types of Russian data: the official position (represented by official documents and discourses of the Russian leaders with a focus on the position of President Putin, Russian Ministry of Foreign Affairs), experts’ views (here we studied three leading think tanks: Carnegie Moscow, the Valdai Club and Russian International Affairs Council), media representation of the subject (three important Russian media outlets were selected: Russian Today, Sputnik and the Moscow Times). The period of analysing the data is 2013 (with the publishing of the Foreign Policy Concept, 2013) until the launch of the 2016 Foreign Policy Concept of the Russian Federation. The findings identified 49 articles in the 3 media outlets that are mentioning the “New Cold War” term, 12 references in the analysed think tanks and no acknowledgement in the official documents. Nevertheless, there were some cases when high ranking Russian official have used the analogy of a “New Cold War” to build more on the intricate relations of Russia with the West.

### 3.1. Searching international recognition for a self-image

Even after the collapse of the Soviet Union, Russia had maintained its great power identity and expected to be one of the pylons of the international system. According to Russian policymakers and academia, the country's global power attributes were given by its nuclear capabilities, military strength, significant raw resources, geopolitical stance, and cultural, intellectual and historical heritage (Omelicheva and Zubyska, 2016).

Russia's image was constructed also in opposition to "the other". In this case, the other is represented by the Western society (more precisely the United States). The self-image of Russia as a great power also means that the country expects to be treated as an equal by the other international actors. Nevertheless, Russia's perception is that it is treated as a "second class state" by the Western states. This idea is so strong embedded in the Russian mental that in a press interview, when asked if Russia's relations with the United States are worsening because of differences of opinions on Syria, Vladimir Putin answered that: "*It is not because of Syria. This is about one nation's attempt to enforce its decisions on the whole world*" (Oliphant, 2016).

In order to be a great power, one has to be recognised as being a great power. In the Russian case, the examined data shows us that there are two distinct discursive narratives, present both in the most high ranking Russian policy makers (the president and the ministry of foreign affairs) but also in the media. Recurring elements of this narrative refer to the aggressive behaviour of the West towards Russia that is only responding as an antagonisation of Western actions. And the other is to portray Russia as a defender of the international principles of the United Nations Charter. As constructivists suggest, the force of a great power should not be only material but also ideational. In this regard, legitimacy becomes an important factor to the foreign policy agenda of an actor. The belief that a state follows and is behaving within the principles and norms of a wider international community is fundamental for legitimacy.

Following this rationale, the legitimisation of Russian foreign policy is put in practice by the two discursive narratives briefly described above. The West (the examined data shows us a particular focus on NATO) is portrayed as aggressive and headed by a Cold War mentality. For example, in an interview for Rossiya 1 in December 2015, president Putin declared: "*The bipolar system collapsed. And our partners should have thought about how to become moral leaders of the newly emerging global relations. But they continued to act and think in the old ways, using Cold War clichés.*" (Russia Today– Putin, 2015). This claim as also employed by Putin in its interview with the German

newspaper, Bild: *“We did not overcome Europe’s division: Twenty-five years ago the Berlin Wall fell, but Europe’s division was not overcome, invisible walls simply moved to the East”* (Russia Today, 2016a). The Cold War rhetoric that is embedded in the Western attitudes towards Russia was also suggested by Alexander Grushko (Russia’s permanent representative to NATO) that said: *“We have to overcome the tangible heritage of the ‘cold war.’ Until recently we considered that it was an issue of the past, but the Ukraine crisis has revived the ‘cold war’ ideology”* (Russia Today, 2016b).

By employing this narrative, the Russian top officials are trying to reconstruct the perception of the Western actions in regards to the Russian state and to present the Russian Federation as having only a defensive attitude rather than being an aggressive/imperialist/revisionist state as it was portrayed after the intervention in Ukraine and the annexation of Crimea. This type of discourse follows two goals: a) to discredit the Western countries and b) to present Russia in another light, a more favourable one.

The second type of narrative, that is fostered by the Russian Federation in order to project its self identity in the international community, is focusing on Russia as an “alternative guardian” of the international norms, principles and values of the United Nations. President Putin, in addressing the nation on the subject of Crimes, stated that: *“After the dissolution of bipolarity on the planet, we no longer have stability. Our western partners, led by the United States of America, prefer not to be guided by international law in their practical policies, but by the rule of the gun. They have come to believe in their exclusivity and exceptionalism, that they can decide the destinies of the world, that only they can ever be right.”* (Putin, 2014). This view is also expressed in the new strategic foreign policy document of the country, as a main objective: *“continue promoting efforts to strengthen international peace and ensure global security and stability with a view to establishing a fair and democratic international system that addresses international issues on the basis of collective decision-making, the supremacy of international law, primarily the provisions of the Charter of the United Nations (the UN Charter), as well as equal, partnership relations among states, with the central and coordinating role played by the United Nations (UN) as the key organisation in charge of regulating international relations.”* (The Ministry of the Foreign Affairs of the Russian Federation, 2016).

The foreign policy agenda of the Russian Federation does not only seek international recognition of its great power status, but also to impose itself as an alternative model to the American hegemony. By utilizing ideology to its foreign policy agenda, Moscow praises Russian values of conservatism, traditionalism, religion, the traditional family to deplore the decadent Western society and liberal values promoted by the US and the EU. In leading an ideological battle with the West,

Putin tries to obtain two goals: to assure Russia's position as an international model for those who do not feel represented by the West and also to divide and undermine the Euro-Atlantic unity (Baker, 2015).

### **3.2. Is the socialization of Russia's great power narrative changing the international system?**

As Russia carries a self-perception constructed by its belief system, history and the previous interactions within the global community, the country's reactions to the events or actions of the other actors can foster the international system institution or can challenge it by moves to alter or modify it.

According to constructivists, the post-Cold war system is an institution because it contains a "relatively stable set or structures of identities and interests". These structures are codified in formal norms and only through socialization and participation in the collective knowledge, they receive a meaning. The norms of the international system are thus produced through interactions between the actors and that interaction alters the actors' practices (Wendt, 1992). As indicated by Dmitri Trenin: *"...Russia's attitude toward the West (and vice versa) often determined the country's view of itself and its role and mission in the world."* (Trenin, 2007, p. 51).

Since Russia's self-perception of Russia was never of a second class power, its actions and declarations were a way of claiming recognition from the other great powers of its affiliation to the same circle. And by recognition, Russian leadership understood the imperative of Russia's right to be respected and share its views on global matters even though theirs weren't following the same line as the ones of the Americans (Arbatov, 2007). Adopting a "pragmatic great power" attitude and admitting that a return to bipolarism is not possible in the current international context, Russian policy makers started to promote multipolarity as a structure to a more stable, balanced, and equitable world.

As presented in the second part of the article, since the integration of the multipolarity idea in the Russian foreign policy agenda, a series of strategic steps (that were translated into actions or discourses) were made with the purpose of socializing the need for a change in the world order. Simply put, what Russia's trying for almost a decade is to alter the international system (the multilateral world order by promoting the idea of multipolar order in which some powerful militarized countries control the international system (Speck, 2015).

### 3.3. The place of “New Cold War” concept in the multipolar world order’s view

The change of paradigm in the international society and the unfolding of unprecedented events for the past two years, starting with the conflict in Ukraine and the annexation of the Crimean Peninsula, gave rise to various intellectual attempts to understand some of these events and categorize them into a known construction. In this logic, the worsening of the US-Russian relations can grow fears of an ignition of a new conflict between the two actors.

Despite the fact that the notion of “new cold war” had become a constant of possible scenarios when speaking or analysing about the current US-Russia relations, the Russian Prime Minister Dmitry Medvedev, during this speech for the 52<sup>nd</sup> Munich Security Conference in 2016, was the first high ranking state official that employed this analogy (of a “New Cold War”). If until this point, the construct of a “new cold war” was more an academic or media idiom, this discourse may be interpreted as the internalization of the concept also by the policy makers. And while it is rarely used by the Russian policy makers, the concept is carrying the beliefs, meanings and the symbolism of the Cold War.

The Cold War, a period that was defined by an ideological, political, military, economic battle of two different systems and their allies have different understandings for the West comparing to the Russians. For the Russian Federation, the Cold War was one of the most prolific periods in the history of the country when the USSR hard and soft powers and sphere of influence were at their highest point. During that period, the state was one of the two superpowers that controlled the international system.

Symbolically, the Cold War represents also a shift in the world order. If the beginning of the Cold War made the turning point from a multipolar system to a bipolar world where two superpowers divided the globe, the end of the Cold War was also translated into a structural international system change as the world became unipolar, led by the United States. Following this rationale, the possibility of a “New Cold War” automatically highlights the end of the current order and another shift in the international relations. The first thought about the possibility of a “New Cold War” is a return to bipolarism. The preliminary findings of analysing the collected data, show us that Russia is acting as a “pragmatic great power” by supporting the idea of a multipolar world order, rather than a bipolar system.

This idea is strengthened by the narratives of the Russian high ranking officials. For example, when asked about the possibility of a new Cold War, Minister Sergei Lavrov said: *“On the one hand, the Cold War was based on an uncompromising confrontation of ideologies. We have no*

*contradicting ideologies at the moment, we follow the same principles in economy and politics, so no objective reasons for... the second edition of the Cold War.*" (Sputnik News, 2015). In addition, according to the new National Security Strategy of Russia, adopted in December 2015, an important element for the national interest of the country is "*consolidating the status of the Russian Federation as a leading world power*" (Gozman, 2016).

As Timothy Snyder suggests, the Russian propaganda has an important purpose: not presenting the situation as it is but rather to create it. Following the model of the Soviet propaganda, Russia's ideology today even though it employs contradictions and factual errors, it tries to present "*not a version of the world in which we live but rather a representation of the world to come*" (Snyder, 2014).

Following these premises and the analogy to historic moments in order to construct a meaning to a current situation that cannot be easily integrated into a pattern, we can observe that the concept of "New Cold War" has some symbolic meaning for the Russian foreign policy agenda and thus it was used and is internalized by the Russian policy makers.

Using legitimizing narratives, the Russian foreign policy agenda is trying to foster the idea that we made the shift from a unipolar world order to a multipolar system where Russia is also an important player. In this logic, the term of "New Cold War" if employed by policy makers can construct and reconstruct meanings to the current international system. Therefore, language is an important instrument in constructing the practice of speaking and the formation of rules. Through an act of speech, a policy maker transmits a message in a specific way to be understood. This shared and contextual meaning of the message gives birth to rules, which are sets of shared meaning. Thus, declarations in which Russia blames the United States for 'damaging' the world order, mass-media reports on the increase of Russia's military involvement in Crimea, the transfer of nuclear-capable missiles to Kaliningrad by Russia, the suspension of the plutonium agreement with the United States are all carrying the symbolism of a "New Cold War" with the purpose of highlighting the turning point in the structure of the international system.

## **Conclusions**

The annexation of the Crimean Peninsula and the conflict in Ukraine open a Pandora box in the international community. Questions about the end of the unipolar order and what should we put in place, started to be more present in the academic, think tank and media environments. In this highly

volatile and complicated international context we tried throughout this paper to analyse the Russian foreign policy. We started our research from the assumption that the “New Cold War” is a symbolic concept employed by the Russian foreign policy agenda to strengthen its great power status and promote the need for a multipolar world.

After conducting a thoroughly contextualization of the foreign policy agenda of the Russian Federation and its main important events for the past decade, we dealt with the conceptualization of the “New Cold War” term. The preliminary findings show us that Russia adopted an assertive and pragmatic great power attitude starting with 2007. That was translated into a more confident, bold and risk-taking external relations approach.

Another important result is that Russia tries to obtain international recognition for its status as a great power. In this regard, we can analyse the term of the “New Cold War” suitable for the case. Symbolically, the concept holds the meaning of a shift in the international system. As such, the possibility of a “New Cold War” can also be perceived as carrying on the beliefs of the former Cold War. Nevertheless, the interesting finding is that Russia is not promoting a return to Bipolarism, but rather the model of multipolarity where the country is an equal international participant as the other actors (states).

Keeping in mind, that the international context that is observed in this research is still unfolding and changes to the West-Russia relations are happening at a higher intensity, the preliminary findings of the author confirm this article main idea: “New Cold War” is a symbolic concept used to strengthen Russia’s great power narrative with the objective of deconstructing and constructing a new set of norms and rules that define the institution of the international system.

Nevertheless, we acknowledge that the vast pool of information, the high rate how the situation is evolving on this subject can affect the findings of this research.

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## ARMENIA AND EU: SECURITY AGENDA AS A FRESH START FOR ENGAGEMENT

Ani GRIGORYAN\*

**Abstract:** *EU Eastern Partnership has gone through a number of difficulties and impediments since its establishment. In the case of Georgia and Moldova we have observed some progress, however in all other cases there is a certain setback. The political spectrum of Armenia was narrowed after September 3, 2013. In mid-January 2016 president Sargsyan held a meeting with EU ambassador in Armenia where he particularly mentioned that EU engagement is a top priority for Armenia (Armenpress, 2016) thus demonstrating that attitudes by both sides towards further engagement have undergone transformations. In the context of current geopolitical developments, the security sector could serve as a platform for Armenia and EU to foster collaboration. Thus, the main goal of the research paper is to seek avenues for approximation in the area of security and hence provide both parties with a deeper understanding of mutual objectives and visions.*

**Keywords:** Security; Eastern Partnership; Nagorno-Karabakh; CSDP; Conflict Resolution

### Introduction

On April 22, 2016, the EU High Representative Frederica Mogherini had a speech within the framework of the annual conference on European Union Global Strategy where she mentioned that “We must strengthen regional orders because conflicts have increasingly transnational nature” (Mogherini, 2016) thus reinforcing the importance of the security dimension on the broader sense. Europe seems more than ever concerned about security in the aftermath of volatilities in the Arab world, refugee crisis, continuous terrorist attacks. These concerns are reinforced by a number of geopolitical shifts in the international arena. Particularly after Iran was lifted the sanctions and began taking huge steps towards reintegration in global issues Europe comes to view the energy problem from different more pragmatic/organizational and less problematic angle. Instead, the security issues within European Union and its neighbourhood seem to have gained momentum especially in the light of a number of unrests spotted in the countries of Eastern Partnership, thus questioning the success of this initiative. As a result, the security dimension for the EU and its importance in the context of Eastern Partnership as a whole and for each country separately has gained importance. Hence, the security platform has acquired quite paradoxical meaning. On the one hand, it endangers the stability in the region threatening to expand beyond its borders. On the other hand, it has the potential of

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becoming the platform that could enhance integration process with EU with all its favourable consequences.

However, the analysis of the overall history of EU engagement in the countries of Eastern Partnership demonstrates that the security dimension is the weakest circle in the set of activities implemented by the EU in the countries of EaP. Proceeding from this the research will aim at introducing the security dimension of EU as represented within the framework of Common Security and Defence Policy (CSDP) and the possible avenues of application of the main strategies as registered in CSDP. Consequently, the research paper will aim at addressing the following questions:

1. How Armenia could benefit from CSDP? In this context, the major problem to be addressed is how to prevent other security models from being detrimental to the achievement of the mutual goal.
2. Are there any platforms existent to embark upon integration between Armenia and CSDP? If not, what mechanisms should be used to create them with the aim of fostering collaboration, working out a joint agenda, sharing experience and expertise? Such initiatives do not pursue short-term goals, but could serve as introductory events to come to a deeper understanding in regard to future cooperation.
3. Consequently, why the collaboration between Armenia and EU within the framework of CSDP could enhance the effect of EaP in the region?

To answer the above-mentioned questions, we will study the official statements, interviews as well as correspondent documents concerning possibilities of future cooperation in the security sphere given the new geopolitical as well as security developments in the region. Therefore, the research paper is expected to be an intermixture of theory and practice. Namely, on the one hand, it will shed light upon previous extensive research carried out in the field and, on the other, it will introduce the theoretical framework of security and the main mechanisms making it compatible with the reality.

## **1. Literature review**

As far as the research paper aims at introducing the set of prerequisites for cooperation between Armenia and EU in security sector most attention is paid to the official statements of EU External Action Service High official's statements on different occasions regarding ENP and namely EaP. Additionally, the research paper leans upon a number of key documents, e.g. Treaty of Lisbon, European Security Strategy and so on.

Given that the study is cohered around the concept of security (Rothschild, 1995) we have referred to the fundamental theories of the concept in academic literature such as national security (Wolfers, 1952), international security (Buzan and Hansen, 2009), security alliance dilemma (Snyder, 1984).

When preparing the article, a vast number of analysis regarding Armenia-EU relations have been examined as well as proceedings of various conferences regarding the question under consideration.

To make the research more comprehensive interviews and opinions by European and Armenian high officials as well as experts and academicians have been included.

## **2. The Imperatives of the Security Dimension: CSDP**

The concept of security as a multidimensional phenomenon has gained much attention from scholars and politicians in recent years though without adding little understanding to the already existing concept of security (Baldwin, 1997). As it is contested in Rothschild's article the pluralistic understanding of security can be dated back to the time of French Revolution (Rothschild, 1995). However, as Rothschild's mentions the concept of security has been extended from national state to group and individual security on the one hand, and to international security on the other. The notion of security is highly relevant in neorealist approach. Waltz observes in his famous quote that "Only if survival is assured can states seek such other goals as tranquillity, profit, and power" (Waltz, 1979).

However, in this article the security will be discussed from the viewpoint of International Security Studies, thus placing the security issues in the light of external threats to the state. Hence, International Security is derived from the fundamentals of National Security accompanying rather than replacing the latter (Buzan *et al.*, 2009, p. 10). It is of vital importance to stress that International Security owing its development as well as institutionalization overwhelmingly to the period after the Cold War incorporates mainly the military capabilities of states including its own military potential. Therefore, the concept of "national security" became to be identical with military security thus incorporating various economic, political as well as energy aspects (Buzan *et al.*, 2009, p. 29). The international security rationale is best understood in the context of the security dilemma theory. More particularly according to the theory if the state does not have the intention of attacking other states, it can never be sure in peaceful mood of other states. Thus it strives to form alliances first to be more secure and secondly to maximize its share of benefits of the alliance (Snyder, 1984). The selection of

the ally is often conditioned by geographical proximity as well as a number of the particular interests such as economic, ethnic as well as ideological values to name just a few.

Proceeding from this the current research will aim at understanding international security aspects in the context of Eastern Partnership initiative taking into account recent developments on the international arena which keep altering security priorities on the one hand of EU and on the other hand of countries of Eastern Partnership initiative with the main focus on the South Caucasus region in the context of Common Security and Defence Policy. The security dimension being the most important aspect in bilateral relation given the instability and rise of violence in different corners of the world leaves its unavoidable negative impact also on the political landscape of bilateral relations. However, as it is fairly mentioned in the CEPS Task Force report “Effective security sector reform (SSR), with special emphasis on the defence and intelligence sectors, was not included” in the package of integration policy with its “strategic neighbourhood” (CEPS, 2015). The concept “strategic neighbourhood” implies also the MENA region however in this article the main emphasis will be on post-Soviet space and namely the South Caucasus.

Building regional security in the Caucasus listed among key priorities for European Foreign and security Policy (Derek, 2013). As stated in the implementation report of Council in 2008 “the frozen conflicts” in this region are a major threat to European security (*ESS Implementation Report*, 2008). However, there is nothing particular mentioned about the Karabakh conflict which nowadays could hardly be called a frozen one.

### **3. A new framework of strategies within Common Foreign and Security Policy**

The review the European Security Strategy adopted by the EU in separate geographical and thematic dimensions incorporates a more integrated approach to reboot bilateral relations and to create more room for cooperation.

The new challenges EU faced during 2012-2014 provided new aspiration for Brussels to reconsider their security vision. The latest geopolitical developments in the EU neighbourhood and in the Middle East as well as Iran nuclear deal played a crucial role in redefining EU's relations and policy priorities pushing security issues to the first places thus reframing shared vision of security in and around Europe.

The European Security Strategy adopted in 2003 named “A Secure Europe in a better world” identified regional conflicts being one of the main 5 threats worldwide (European Security Strategy,

2016). Consequently, this issue has found its achievement within the framework of CSDP actions. As stated in the Lisbon Treaty, CSDP is an integral part of European foreign policy agenda consistent with EU and NATO priorities and commitments (Treaty of Lisbon, 2007).

In the 2003 European Security Strategy the relationship between security and development is formulated as "security is the first condition for development" (European Security Strategy, 2003). Still the need to reconsider the security aspect of this document in line with shifting security priorities has gained much importance especially in the light of recent attacks in Paris and Brussels. However, in 2008 amendments were made to the original document given changing circumstances which found their place in the implementation report of the document. These include EU enlargement policy and namely European neighbourhood initiative developed in 2008. Understandably, the Ukrainian crisis and major developments in Middle East have considerably changed the face of European security thus demanding urgent solutions to the problem. The shift in security agenda could serve as a new starting point to rethink Eastern Partnership Initiative, thus preventing the process of its failure and making the target countries more enthusiastic and motivated about it.

Coming back to CSDP we should mention that it is characterized as "the weakest link in the European integration project" (Derek, 2013) being a result and conditioned by divergence in intention, low level of solidarity and strategic vision. In functional terms it is the operations arm of Common Foreign and Security Policy.

To better understand the CSDP it is necessary to reflect upon "The Programme for the Prevention of Violent Conflicts" (the Gothenburg Programme) (EU programme for the Prevention of Violent Conflicts) that foresees three main areas: early warning, action and policy coherence. As a result, the EU Conflict Early Warning System was developed directed to highlighting global threats, assessing, strategic planning and programming as well as developing response strategies (EU Conflict Early Warning System). Proceeding from this and taking into account the high level of volatility on the global level, complexity and uncertainty European Union is in need to assess challenges and threats and to develop mechanisms to respond adequately.. In this context, the role and importance of CSDP is constantly being reconsidered and revitalized. Namely, European Council on Security and Defence Interim Report adopted in December 2013 put forward the following criteria to improve CSDP missions: making CSDP "a part of more comprehensive and wider approach in accordance with EU instruments, engaging CSDP in capacity building measurements, to assist conflict prevention, conflict management (European External Action Service, 2013). Thus, CSDP is increasingly an integral part of bilateral relationships with third countries and with international

and/or regional organizations. It is perceived as a platform for the development of security and defence dialogues.

In this regard, it would be worthwhile to mention that in academic literature we distinguish between 5 types of interactions for avoiding and managing conflicts: severe rivalry, lesser rivalry, negative peace, warm peace, and security communities respectively (Goertz *et al.*, 2016). Among all these the most relevant issue is the problem of security communities. The so-called positive peace (Galtung, 1965) becomes realistic when considering it with warm peace (Diehl, 2016) such as having shared alliances. However, this does not guarantee security and peace within the alliances (e.g. Turkey and Greece in NATO). Warm peace between security communities is regarded as strong and the possibility conflict is low. The main characteristics of security communities are 1. Shared identity, values and norms, and proceeding from this they suppose extensive cooperation, interaction at several levels, i.e. private as well as government (Diehl, 2016). As Karl Deutsch mentioned security communities are “transnational spaces where shared identities and common ideas develop, based on a high level of transnational interactions, which in the long-term facilitate the development of shared expectation of peaceful change” (Deutsch, 1957). Waever, on its turn labels, Western Europe as security community adding that “security community proves to be a fertile organizing question in that it produced a re-thinking of European politics in the complex field where the historic novelty of non-war meets transformation of security from state to multiple units” (Waever, 1998). Therefore, one of the main steps towards wider secure Europe is close interaction of security communities of South Caucasus and EU. This interaction, however, should not be taken as between established rules and institutions. Rather it might serve as the basis for long-term vision of cooperation between the two communities. As it is suggested in the new threats should find their responses “through the lenses of societal resilience”(European Parliament, 2015) as these societies experience more prosperous mechanisms of responding to various challenges than fragile and underdeveloped societies.

Against this backdrop, the Council Conclusions of CSDP on May 2015 prioritised the following areas for CSDP as a security provider: addressing conflicts, instability, security challenges (Council of the EU, 2015). The document emphasizes the importance of cooperation between internal and external players, given the importance of the security dimension of its neighbourhood for the European world. Thus, a few mechanisms are put forward for achieving these goals. Particularly, measurements such as increasing hybrid operations, establishing crisis management and assessment structures as well as reinforcing capacity-building mechanisms gain momentum. Having assessed modern global threats and challenges the importance of CSDP has been reconsidered according to

Directorate-General for External Policies Policy Department Assessment. Here the following criteria can be found as why and how CSDP is relevant to the security of EU.

First of all, the EU engagement in conflict-affected areas and fragile countries has increased. The growing share of EU external action in the period 2014-2020 has been directed to the countries from the geographical proximity with focus on “security analysis at all stages, from programming, to implementation to after-action assessment” (European Parliament, 2015). As such, the CSDP actions are expected to be implemented in strong accordance with EU security interests and avoiding isolation from other EU actions.

Secondly, policy priorities reflected in December 2013 European Council on security and defence where the key expression “defence matters” by EU leaders aim at increasing EU role in international crisis management thus transforming EU external action priorities.

Thirdly, these shifts in EU security and defence sector have pushed forward the need to recalibrate CSDP-NATO relations. The dialogue between the two is in progress. It is not accidental that during his speech before the European Parliament NATO Secretary General mentioned three main areas that envisage cooperation: 1. building resilience together, 2. building resilience together with neighbours to the east and the south; 3. and defence investment (Stoltenberg, 2015).

Of these three the second point deserves clarification. Cooperation in the East which includes South Caucasus has always been in the centre of attention in terms of EU foreign policy agenda. However, it should be mentioned that a more profound and straightforward strategy and programme is needed in this regard to deepen EU engagement in the region in terms of security. A more institutionalized approach should be applied also to cooperation between EU and Armenia. The history of Armenia and NATO cooperation seems to have broadly confirmed the possible interaction between Armenia and CSDP irrespective of Armenia being a member of Russia-led Collective Security Treaty Organization. In connection with this, the Action Plan 2015 “Taking forward the EU's Comprehensive Approach to external conflict and crises” identified the main methodologies, regions to be treated capacity building initiatives in support of security and development (Day, 2015). However, the South Caucasus region does not come in the list of those regions and countries of immediate engagement. Given the four-day's war in Nagorno-Karabakh this conflict is a threat not only for the countries of the region but also for the West. However, in the aftermath of Vienna negotiations with the participation of Co-Chairs of the OSCE Minsk Group (Press Release, 2016a) a relative ceasefire was declared. The clear message of the negotiations was that the conflict has no military resolution<sup>1</sup>. However, the ceasefire is still not reliable given continuous violations resulting

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<sup>1</sup> Statement by Representatives of the OSCE Minsk Group Countries, Vienna, 5 April 2016.

in fatalities from both sides (Global security, 2016). These causalities and unrest alongside the line of contact reconfirm the importance of a more institutional, fundamental and overwhelming approach to the resolution of this conflict. Thus, revisiting Eastern Partnership concerns in the region mainly from security perspective could appear efficient for both sides in terms of gaining peace, and consequently economic and political dividends.

As it is stated in the implementation report adopted on March 25, 2015 the CSDP engagement in EaP region has remarkably increased. However, it should be mentioned that only three countries Ukraine, Moldova and Georgia are mentioned in the report (European Commission, 2015). However shortly after the publication of this report Federica Mogherini mentioned in her speech during the follow-up meeting of the Defence and Foreign Affairs Council that among the three main strategies of CSDP is “the decision to increase our presence with the already existing CSDP missions and operations” (Mogherini, 2015). When we try to put this in the context of increasing the security dimension in the context of EaP, Mogherini mentioned during her visit to Armenia in early March 2015 that the security dimension remains an important part of bilateral relations between Armenia and EU (Mogherini, 2016). However, these words were not reinforced by action during the four days war in Nagorno-Karabakh in early April 2016<sup>2</sup>. Moreover, an attempt was made to treat the problem on parity principle given the fact that it was obvious for all sides the motivations of the aggressor party. In connection with April events high representative mentioned that “I call on the parties to stop the fighting immediately and observe the cease-fire...We expect both sides to respect strictly the ceasefire, refrain from the use of force and resume efforts towards a peaceful resolution of the Nagorno-Karabakh conflict” (Mogherini, April 2016).

The importance of security dimension of the EaP was also highlighted during the speech on the European Neighbourhood Policy Review published in November 2015. Particularly among key areas of cooperation, security dimension was stressed mentioning that so far the main portion of attention has been dedicated to community instruments. Thus, a shift is necessary to key challenges in the region. The document also addresses continuing cooperation with Armenia despite its entrance into the Eurasian Economic Union (Hahn, 2015). The fact does not let Armenia hopeless as it comes to cooperation with the West, however there exists a certain set of criteria such as judicial sector reforms and anticorruption measures that need to be fulfilled in order to proceed with the bilateral dialogue. However, the security dimension in bilateral relations has not been a priority. With Armenia extensively engaged in Karabakh war directly and indirectly which halts the process of development

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<sup>2</sup> Nagorno-Karabakh Republic Ministry of Foreign Affairs Statement, 30 April 2016

in key areas, Armenia-West cooperation could lay strong basis for recalibrating the EaP initiative thus ensuring its success in the foreseeable future.

Taking into account that EU and global security is interdependent the importance of bringing together EU internal and external security is prioritized in the document of the European Agenda on Security. In this connection "EU response must therefore be comprehensive and based on a coherent set of actions combining internal and external dimensions" (European Parliament, 2015). It is important to bear in mind that there are certain limitations regarding the CSDP as an integrative tool conditioned by the inner logic of the main mechanisms that realize this policy (Dyson *et al.*, 2013). Thus, the effectiveness and success of CSDP is largely dependent upon the cooperation with international partners. Thus, the importance of deployment of security experts to neighbouring countries as well as of local coordination by EU delegates and representatives is stressed.

In the same vein, another question should be answered regarding EU's motivations in engaging with South Caucasus region. Although the EU demonstrates reluctance in addressing a number of important regional issues despite its stance of being a regional promoter (Kostanyan *et al.*, 2015), the EU interests in the region are twofold. First, a peaceful periphery serves as a safeguard preventing various security challenges from spreading to the centre and, second, it becomes the bearer of economic social and cultural progress that EU seeks to promote via soft power policies. Conflicts whether frozen or not are listed among the major threats to European security reflected in the European Security Strategy. Thus, a closer cooperation in the sphere of peace building, conflict prevention and conflict resolution in South Caucasus, and particularly in the case of Nagorno-Karabakh conflict could be an opportunity to improve EU-Armenian relations. It would be worthwhile to mention that recent developments in EU-Armenian relations seem quite promising in the context of a set of communitarian programmes in judicial sphere, regional markets, CFSP statements that prove the willingness of a number of countries in the initiative to become an EU member.

EU-South Caucasus relations have been based on three main issues: assistance to political and economic transition processes; conflict resolution; and support to the development of the energy potential of the region (Simão, 2011). As Buzan mentions the South Caucasus forms a security complex (Buzan, 1991) where security is strongly dependent upon such factors as ethnic issues, territorial dispute vast and various cultural background together with far-going ambitions of each of three countries in the region. Hence, security cooperation mapping should be accompanied by configurations in accordance with international norms and principles facilitation.

In February 2016 Minister Soini underlined the urge to develop long-term strategic vision for the EU to meet global challenges. He particularly drew attention to the internal and external security dimensions. To achieve stability and to be more confident for the coming years the EU needs to look at its broader neighbourhood. In this regards it should be mentioned that Eastern Partnership has been recalibrated for the EU. Proceeding from this he mentions in his speech that more political and economic cooperation is needed with the six countries respecting their sovereign choices and avoiding “arrangements in a zero-sum manner” (Soini, 2016). In this path the cooperation with Russia cannot be ignored, moreover it is highly recommended to find fresh ways of interacting with Russia for the benefit of coping with the Syrian and Ukrainian crisis as well as to deal with other international security issues among which should also be mentioned the Nagorno-Karabakh conflict. In this regard the Nagorno-Karabakh conflict resolution presents a beneficial platform to strengthen ties between Armenia and EU thus promoting the Eastern Partnership initiatives. This platform leaves room for hope given that this conflict is one of the few issues on which EU and Russia have reached a limited consensus. However, it would be worthwhile to mention that the ceasefire violations alongside Karabakh-Azerbaijani and Armenian-Azerbaijani borderline remain unnoticed by the international society raising questions among Armenian’s towards EU aspirations regarding the peaceful settlement of the conflict.

Amidst a number of harsh political, socio-economic challenges the security issue seems to remain an underestimated problem in the South Caucasus region. However, it deserves more attention as stability and integration in the region and at a higher level in broad Europe are highly reliant on this factor. The EU should particularly be interested and engaged in addressing current security problems the biggest of which is the Nagorno-Karabakh conflict. I would like to address the problem as why the Nagorno-Karabakh issue is the most important. First of all it includes two of the three countries in the region making peace and stability impossible: there are trilateral (Georgia, Turkey and Azerbaijan) economic projects. Secondly it should be mentioned that among other global players though indirectly but Turkey is also engaged in the process of Nagorno-Karabakh conflict resolution. Turkey has continuously been backing Azerbaijan thus triggering and encouraging ceasefire violations alongside the line of contact between Nagorno-Karabakh and Azerbaijan, Armenia and Azerbaijan (Hurriyet Daily News, 2016).

In this regard the Euronest Resolution adopted in March 22, 2016 on Common positions and concerns of the EU Member States and Eastern European partner countries over foreign policies and external threats to their security deserves attention. In particular, it calls on regional players to set up

joint actions towards security and defence issues, namely in the field of conflict prevention, anti-terrorist and anti-radicalization through substantial cooperation with CSDP missions and training activities, as well as within the framework of Eastern Partnership Panel on Cooperation in the sphere of security. The resolution also calls the European Neighbourhood Policy on more profound measurements regarding the security sector reform (Euronest Resolution, 2016). Thus, there is a strong need of cooperation among both sides seeking mutual benefits.

#### **4. A reflection on the Armenian perceptions of EU-Armenia relations**

Perceptions of EU engagement in the South Caucasus among Armenian officials and civilians represent a rich landscape and needs profound analysis. Before the decision to join the Eurasian Economic Union (EEU) Armenians were looking positively towards the prospect of signing the Associative Agreement document. The decision to join the EEU was as shocking and unexpected for Armenians as it was for the European side. However, after Armenia's president Sargsyan's announcement (Press Release, 2016b) about entering the Eurasian Economic Union many civilians, experts expressed disappointment about the EU approach to the situation. Throughout out the time concern about the apparent ineffectiveness of the Eurasian Union appeared to be realistic. It did not prove to be successful neither in economic nor in political terms<sup>3</sup>. Still after the Riga summit it became apparent that Armenia is still considered a potential partner. This approach was also reinforced by the statement of EU ambassador Piotr Antoni Świtalski during his briefing in early 2016<sup>4</sup>. Therefore relaunching negotiations between the EU and Armenia seem to provide rich ground for "defining a new comprehensive framework for bilateral relations (which) will help Armenia keep up with its reforms and modernization of its institutions" (Poghosyan, 2016). Thus, a whole new vision is therefore necessary for the Nagorno-Karabakh conflict negotiation process after the four-day war along the LOC between Nagorno-Karabakh and Azerbaijan. It should be noted here that the term "local conflicts" does not exist any longer. As a result of globalization and technological advancements coupled with the geographical location of the region as "a bridge between the East and the West" extensive military actions cannot stay confined to the borders of the two parties involved in the conflict. The fact that representatives from different stakeholders in the conflict expressed their stance towards this four-day's war, comes to prove that: first, the military option for the resolution is

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<sup>3</sup> It should be noted here that the Eurasian Economic Union has been perceived not as an economic but a political phenomenon both in the region and among the international community

<sup>4</sup>Press Releases (2016), "President Serzh Sargsyan received the head of the EU delegation to the republic of Armenia, Piotr Switalski", 13 January 2016

unacceptable to all parties, and secondly there is a strong need to identify the party that unleashed the violent actions which resulted in numerous victims from both sides. Consequently, a more comprehensive and overwhelming measurements should be applied for the peaceful settlement of the conflict the eruption which is a real threat not only for the parties directly involved in the conflict but also for key players on the international arena. In this regard, it would be worthwhile to refer to the visit of OSCE Minsk Group co-chairs to Armenia, Nagorno-Karabakh Azerbaijan after the four-day's war in April, 2016. Particularly, during their press conference, it became apparent that the co-chairs lack any consistent approach to the problem, moreover they treated the problem on parity principle which can have adverse results in the short-term future (OSCE, 2016)<sup>5</sup>. Given these facts the cooperation between Armenia and CSDP can be a driving force for the successful implementation of EaP in the region as well as for the peaceful settlement of the conflict over Nagorno-Karabakh. More commitment is necessary from the international community over these issues otherwise the power vacuum in the region is supposed to be filled by Russia.

There are key areas which require immediate settlements otherwise inaction in this regard would prove to be disastrous on regular basis. Of them I would like to mention the establishment of investigative mechanisms of ceasefire violation and early warning systems as well as clearing out political intentions and expectations of the parties involved in the negotiation process. These two steps are included in the CSDP missions and if undertaken could minimize the risks of escalation on the one hand and additionally they could give the parties to participate in negotiations.

Since OSCE has appeared to be reserved as far as the Nagorno-Karabakh is concerned, the EU more involvement in the process could serve "to underscore both collective European responsibility and individual member-state leadership" (Broers, 2016). The April events demonstrated how dangerous and violent the conflict can appear. Therefore, urgent need for diplomacy to take immediate steps to revitalize the peace process are important, otherwise as Armenian expert mentions another repetition of the four-day's war is a matter of time (Giragosyan, 2016). However, we have to justly notice that after the violent clashes the full OSCE Minsk Group issued a joint statement serving a precedent during the last year. Despite the fact that it was only Russia involvement when the comparative ceasefire was established still the joint statement was a little step forward. In this context, what the EU is expected to perform is to reconsider its role in the wider OSCE Minsk group on the one hand and on the other push forward the problem of conflict settlement in the political agenda with

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<sup>5</sup> Press Release, the Co-Chairs of the OSCE Minsk Group, Moscow/Washington/Paris, 2 April 2016.

Armenia and Azerbaijan. Unfortunately, as it is illustrated in the European Foreign Policy Scorecard 2016 Wider Europe the Eastern Partnership countries are most importantly regarded by the West as sources for diversifying energy supply routes (European Foreign Policy Scorecard, 2016). As stated in the Council Conclusions on the Review of the European Neighbourhood Policy the “neighbourhood is a strategic priority and a fundamental interest for the EU” (European Council, 2016). Having this in mind the EU stresses the importance of capacity-building measurements to address security threats mainly via security sector reform. In this connection, a closer and comprehensive cooperation between ENP and CSDP is stressed. It should be added that in terms of security sector cooperation EU High Representative Federica Mogherini’s statement during her visit to the South Caucasus in early January deserves attention when more particularly she mentioned that the peaceful solution of the conflict over Nagorno-Karabakh is vital for EU (*Mogherini, 2016*). In this regards EU instruments for long-term and short-term prevention could provide a perfect solution among them development cooperation, arms control and political dialogue as well as diplomatic instruments as developed by ESDP<sup>6</sup>. Additionally, this would be a huge step forward in terms of EaP guaranteeing a new phase of cooperation between EU and Armenia resulting in a more stable South Caucasus and more profound interaction between the two parties.

## **Conclusion**

Based on the security dimension the article was an attempt to draw the possible avenues of cooperation between the EU and Armenia within the framework of CSDP taking into account the current political developments on the international arena as well as CSDP geostrategic vision in the South Caucasus region. As it is apparent from the documents, treaties and official statements the EU pursues certain security strategies in the region although it does not seem quite enthusiastic about undertaking certain steps to translate its “defence policy” into “defence”.

The above mentioned analysis was aimed at understanding to what extent the security sector recalibration could revitalize the EaP in the South Caucasus region through shedding light upon the inner security dynamics of the region. It became apparent that in order to achieve success in the EaP region, the EU should act more actively in the region. CSDP activities such as communitarian work, focus on awareness-raising measurements, fostering people to people dialogue as well as establishment of early warning systems could appear to have beneficial effects for both sides. On the

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<sup>6</sup>Press conference, “Remarks of Foreign Minister Edward Nalbandian during joint press conference with Federica Mogherini”, 01 March 2016.

one hand, it could transform the security perceptions in the region making it more stable and preventing further escalation and, on the other, raise EU presence in the region within the framework of Eastern Partnership Initiative.

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## THE TRANSATLANTIC BLUE DIPLOMACY

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**Abstract:** *The international diplomatic environment has reached to an unprecedented development, involving one of the newly specialized diplomatic types, namely the economic diplomacy. At the core of the fast movements in the diplomatic spheres across the Globe are the international agreements like the Transatlantic Trade and Investment Partnership (TTIP) that determined diplomacy to dissolve into new subtypes, evolving from ground to the ocean and implementing new ways of achieving economic and climate sustainability. One of the newly created diplomatic spheres, is the blue ocean diplomacy that acts mainly in accordance with the rules and regulations that are being applied to the transatlantic economy. Even though TTIP encourages the increase of trade flows across the Atlantic, it will also ease the foreign investment procedures that, under the approach of keeping a sustainable environment, will represent one of the most important initiatives in implementing the blue economy concept within the framework of the transatlantic diplomacy.*

**Keywords:** EU; US; economic diplomacy; blue economy

**JEL Classification:** F02

### Introduction

On a diplomatic level, the 21<sup>st</sup> century is characterized by regional and economic environment changes that are taking to a new level the characteristics of the traditional diplomatic aspects and evolve into new specialized diplomatic types, which are more flexible and that can be easily adapted to the international economic environment. The new diplomatic patterns distinguish among these global economic perspectives, while the internationalization of the internal legislations, the transformation of the sovereignty concepts and the use of new virtual technologies increased the role of the economic diplomatic environment, determining it to evolve and use new instruments like business and corporate diplomacy that can be practiced not only on the land, but also on the international waters.

The blue ocean diplomacy is emergent from the negotiations of the new bilateral and multilateral trade and investment agreements that involved states from all the continents: the Transatlantic Trade and Investment Agreement (TTIP), the Trans-Pacific Partnership (TPP) or the Trade in Services Agreement (TiSA). This international perspective reunites the largest economies

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of the world, both traditional and emergent, adding value to the diplomatic aspects and forcing them to go on a new scale. The elements of sustainability are to be taken in consideration when negotiating the chapters of the international agreements, the elements of novelty given by the blue ocean perspectives and the blue economy provisions are taking the negotiations on levels never reached before by the diplomats and the specialists attending to the processes of negotiations.

### **1. The International framework of the blue diplomacy**

Water is one of the core factors of every global challenge that the Earth faced during the history of economic developments, and will continue having an even more obvious and important role within the cooperation among states. According to the UN Water estimations (2014), by 2050 the global water withdrawals will increase by 55% due to the higher demand for production, domestic use and agricultural supply of the emerging economies. This fact will be the continuation of the so called – globalization process, an international economic framework that affect each and every state on Earth; one of the components with a significant role for all the actors of the global evolution is the hydro-diplomacy, described by Islam and Repella (2015) as a framework that includes three basic assumptions: (1) water is a flexible resource; (2) science, policy and politics combine to create water networks which (3) are of an increasing complexity. As we can observe, the hydro-diplomacy does not specifically refer to the inner or intra-continental waters, but to all the types of resources, from the continental underground to the Arctic, and from the largest rivers to the Seas and Oceans. As for these reasons, the water diplomacy regards cross multiple domains that interact at different scales, within the same timeframe; this variety of levels contribute to the complexity of the water resources international system, bringing together political, societal and natural factors across jurisdictional and institutional frameworks, that do not only apply within the international order, but are being initiated on national and sub-national levels, by complicating the management of the international hydrographic system to the edge.

According to the Water Diplomacy Organization (2016), the most water management problems have as background the competition, interconnection and feedback among natural and societal processes, seen within a political framework. This background implies factors like the natural ecosystems, the water quantity and quality, the specific and targeted governance, disposable assets, all governed by common norms and values.

The chance for practicing a waters diplomacy stands within the bilateral and multilateral agreements, along with the establishment of river basin organizations and sea and ocean international administrations, whose roles relate with coordinating the activities of the trans-continental navigation companies, as the main actors and users of the global water legal framework; it must be underlined the fact that the global water transportation system represents the latest result of the actions of the foreign policy makers, whose actions have access to the highest political levels, instrumenting inter-governmental conflicts, intermediating compromises within international negotiations and defending the interests of the water policy ministries and organizations. Acting as communication facilitators among interested actors, the policy makers within the water administration act starting from national and sub-national levels, dealing with issues that emerged with basin or global scales; the ardent issue is that policy makers, even if they have similar economics and sustainable goals, internationally they are fragmented and lack political power (Pohl, 2014). For this reason, the international actors whose intentions for blue cooperation are similar, are recommended to initiate processes of negotiating institutional and legal conditions, along with capacity building, financial and political coordination, on all the four levels, as explained in the following table.

**Table 1 - The global framework of the Blue Diplomacy**

<b>Tools for blue cooperation</b>	<b>National / sub-national</b>	<b>Basin</b>	<b>Global</b>	
<b>UNEP</b>	Strengthen the actions of national and sub-national water responsible institutions	Support the development of new and existing basin agreements	Support and apply the International Water Law	Institutional & Legal
<b>UNDP</b>				
<b>UN-Water</b>	Improve the practice and behaviour of the national institutions	Develop the capacities of the diplomatic water communities	Promote the relevant information in regard with the stakeholder processes	Capacity-Building
<b>UNESCO</b>				
<b>UNECE Water Convention</b>	Fund cross-sectoral capacity-building	Fund intra-basin confidence-building processes	Fund global early warning and crisis response mechanism	Financial
<b>Water Cooperation Facility</b>	Ensure cross-sectoral coherence	Offer fact-finding support and engage preventively	Strengthen international agency/create institutional platform	
<b>World Water Council</b>				Political Coordination

Source: adapted after Pohl, Benjamin, 2014

Within this paper, we will focus on the basin and global water diplomacy, whose economic effects and complexity resulted into a subtype of the water diplomacy, namely the ocean diplomacy; respecting the principles of the blue economy and combining the actions of economic diplomacy, the blue diplomatic actions of the riparian countries can only result into two major actions: (1) develop the usual economic and trade actions, without any significant variations, by ignoring or inefficiently exploiting their natural water resources and risk conflicts in transboundary seas and oceans, or according to the second option (2) engage the neighbouring countries in finding and exploiting fair modalities of cooperation, by emphasizing the efforts of planning, managing and use their national institutional bodies within the process (Salman, A, 2015).

On a global scale though, the actions of the blue diplomacy cannot imply rim countries on the same continent, that act within regional frameworks of cooperation; the issue is far more complex, involving partnerships and international bilateral or multilateral treaties where countries across continents can encourage the practice of this newly emerged diplomatic type through exploiting the national resources that result in products and services that can be ultimately exported, instead of importing it from the partner countries, as an act of replacing the lack of productivity of the given state industry. For this reason, we call it blue ocean diplomacy, as a mirroring of the means of transport of the final products and services resulted from the efficient exploitation of the natural resources of countries that are part of the international environment. In our opinion, the result of this process scores better for all the economies, since it encourages sustainability of both environments – earth and ocean, by avoiding the agglomeration of actions concerning the water diplomacy, reassembles the national industries and encourages the activities of the SME's and creates the opportunity of diversifying the home markets, by keeping steady prices for the national products and services and not overcharging the imported ones.

We can conclude this short literature review by adding the view over the blue diplomacy of the Netherlands Institute of International Relations (2016) that sees the new concept as a new way of promoting the sustainability of waters across the Globe by implying numerous tools of cooperation – economic diplomacy, multilateral negotiation skills, international trade over oceans, aquaculture and fisheries, tourism and state branding and the offshore energy opportunities; in our opinion, these tools of the blue diplomacy lack the instruments of uniform implementation and political and economic support, but given the importance of the economic climate changes and the importance in evolution of the negative weather changes, we consider that along with the green economy, the practice of the

blue diplomacy represents the future of the trans-oceanic trade relations, applied to every individual entity that will be a part of it.

## **2. The transatlantic diplomatic relations between the EU and USA**

Trade among Europe and North America has the character of a traditional relation that is integrating different economies from both shores of the Atlantic. Currently, the relations between the two continents are held between the European Union formed by 28 Member States, on one side, and the United States of America on the other.

In the light of consistently different political, economic and social agendas, they are the two biggest economies of the world, representing together over 50% of the global GDP. The trade scenario is developing under the light of low average tariffs (of less than 3%), fact that encourages companies to act within the given transatlantic scene; on June 2013 the European Commission (EC) started negotiating over a Transatlantic Trade and Investment Partnership with the United States of America (USA). The general objective of the treaty regards job creation and the increase on trade and investment flux across the Atlantic; these results can only be achieved as a positive consequence from broadening the existing rules and procedures, and implement a common approach.

The diplomatic transatlantic frame is formed out of the main actors that negotiate in the name of the transatlantic traders – EU and USA. The Member States (MS) of the European Union are acting within the External Affairs Ministries and their Embassies; as an added value to this diplomatic world, the EU created in 2007 an European External Action Service (EEAS) that represents the interests of the Union at the international level. All the 28 Member States have Embassies in the United States; additionally, EU is being represented on the American territory within the Delegation of the European Union to the United States located in Washington D.C. and that is a continuation of the idea implemented in '50 by the European Coal and Steel Community (ECSC).

Within the same frame but seen from another angle, the United States of America has also Embassies in all the 28 Member States of the European Union; additionally it has a United States Mission to the European Union which is located in Brussels, also a reminiscence of the early relations with the ECSC and later with the European Communities.

From a common trade perspective, the activity within the two economic powers is encouraged and controlled through the Transatlantic Economic Council (TEC), an international *fora* that was established at first in 2007 with the occasion of the EU-US Summit. The meetings bring together diplomats and trade and economic specialists along with the US Deputy National Security Advisor

for International Economic Affairs, position that is currently held by Michael Froman, and the EU Commissioner for Trade, Cecilia Malmstrom.

TEC is also hosting a variety of gatherings and sessions along with three advisory groups: the Transatlantic Legislator's Dialogue; the Transatlantic Consumer Dialogue and the Transatlantic Business Dialogue (EC, 2016). Within the development of a similar event (EU-US Summit from 2011) it was established the High Level Working Group on Jobs and Growth (HLWG) that was under the care of the EU trade Commissioner and the US Trade Representative and that issued a report in 2013 that represented the base of the currently negotiated Transatlantic Trade and Investment Agreement (TTIP).

The trade disputes that currently occur among the two economies are handled within the framework of the World Trade Organization (WTO) with the help of dispute settlement mechanisms, and that do not affect an important percent of the existing EU-US trade. Given the global expansion of trade and the new rising economies, the old traditional commerce relation between the two shores of the Atlantic needed insurances for facing the globalization phenomena; for this main reason, they started negotiating over what is supposed to be the largest bilateral agreement of commerce and investments that was ever attempted; in the eventuality of reaching to an end, and after the process of ratification by both powers representatives the European Member States and both of the Houses of the Congress of the United States - TTIP will bring by the earliest 2025 the economies of the two international actors to the top of the markets across the world.

Besides the economic benefits, even from the start of its negotiations, TTIP brought into light a new type of diplomatic cooperation; the old fashioned traditional diplomacy was replaced with hybrid diplomatic categories where communication acts on higher levels, where diplomats are specialists in areas like sustainable development of businesses, economy and/or financial markets. For this reason, TTIP brings the economic diplomacy to its edges, redesigning it and offering new methods to be carried on and even implemented.

In the eventuality of reaching TTIP negotiations to an end, the negotiators diplomats will have to accomplish their duties and start implementing the outcome of their previous work - the negotiation; here is expected another innovative type of diplomacy to come into the light, since countries of EU will have to individually ratify and implement the *acquis* into their national legislation; the federal states of the US will have to comply to the national legislation and the companies that act international will be needed to have a fully understanding of the new provisions

of TTIP; and for the last, the transatlantic space with its two main actors – EU and US – will have to comply to the new rules and legislation and apply them in the actual movement of the trade flows.

Since diplomats do not only represent officials that work inside the Foreign Ministries of the states and within the EU institutions, corporate diplomacy and business diplomacy will bring into the scene specialized diplomats that will actually collaborate with the negotiators of TTIP – diplomats and specialists – and will implement the new provisions within the actual trade flows that are already existing between the two continents. Within this framework will be developing the future of the blue ocean diplomacy, a transatlantic diplomacy that will have the legislative fundamentals mainly under the TTIP provisions and that will be implemented by businesses and corporations that trade across the Atlantic Ocean. It is called blue since it borrows the element of novelty that marketing brings through the alliteration of blue and red oceans concepts; it is also blue, since it refers to trade developed across the international waters of the seas and the Atlantic Ocean that separates Europe from North America; it is diplomacy since this is the main instrument used in implementing international legislation, negotiated by two main economic powers of the world. In order to prove evidence about the movements of the commercial shipping fleet across the Atlantic, we offer a map that plots data points specific for the 1 of January 2012. The map is also taking into light the CO<sub>2</sub> emissions for each hour and the nature of the monitored cargos.

**Figure 1 - Trade flows across the Atlantic Ocean (2012)**



Source: Schuler M., Ship Movements across the Globe (2012)

Since TTIP is expected to respect and implement the concept of blue economy, it will be encouraging trade and the increase of shipping across the Atlantic, while the carbon emissions do not encourage sustainability, given the fact that estimations say that the carbon emissions of one year of transatlantic shipping are bigger than the ones of UK, Canada and Brazil cumulated (Schuler M.,

2016). Here is why it can be said that TTIP is not a very blue agreement, even if it encourages the ideas of sustainability and the protection of the environment, since the main regulations and provisions that TTIP is referring to are about water transportation and the increase of the frequency of the transatlantic relation shipping.

From this view, it appears the necessity of conducting a more blue diplomacy, more creative and efficient, where the natural resources of the waters need to be correctly exploited, where the international legislation needs to clearly allow or prohibit and where the use of local resources need to be encouraged in order to reduce pollution and increase cash flows for the trade actors, meeting once again the six main rules of blue economy, that will be discussed in the following section.

### **3. The blue economy concept and principles**

More than 70% of the surface of the blue planet is covered by oceans; this constitutes an important resource for a large part of the world economy, along with the marine and coastal environment. The waters from the seas and oceans are a source of the so called blue energy, produced from wind, wave, tidal, thermal and biomass resources (UN, 2016).

The global trade is supported in a proportion of almost 80% by oceans, while a large part of it is included in the transatlantic economy, the trade which is traditionally made between the West-European and the North American states. The importance of the trade supported by oceans in meeting the sustainability concepts and in applying them is an important key issue that was recognized for the first time in the Agenda 21 of the Johannesburg Plan of Implementation organized by the United Nations in 1992 at the Earth Summit which was held at Rio de Janeiro, Brazil. Ever since, the idea of sustainability was vastly adopted and implemented in a variety of areas like economy, trade, diplomacy, international relations and energetic industry.

The blue economy concept derives from a project that was launched in 2004 “Nature’s 100 Best” which was designed to find solutions for improving the way the society and the economy work, by finding inspiring models in the nature. The outcome of this project was summed up in a book with the title “The Blue Economy” that promotes the idea of solving a multitude of problems at a time, instead of only focusing in one area, by implementing the idea of sustainability in the industries across the Globe, that are expected to adopt this strategic view and to add value to the new outcome. Starting with 2010, the concept of blue economy and its strategic perspective started to be presented and

adopted within a variety of national and international gatherings and summits, culminating with the planning in 2012 of a World Summit in Berlin which was cancelled one year later.

When about practicing and implementing the principles of the Blue Economy, the European online platform Blue Economy describes the phenomena as a new way of creating and performing business, by using the available resources that the one has in cascading systems, where the lack of usage of one product is seen as a business opportunity for another actor on the market (EC, 2016). The principles of the blue economy represent a matter of polemic discussions among experts and practitioners; the number of supporters is different, according to the political affiliation and the knowledge coming from the practice of the companies representatives that were invited for consultation.

For these reasons, we are going to follow within this paper the side of the Blue Economy team, which identified six modules that capture an *unfix* number of principles, as it follows: *local*, by using what you have in the specific natural environment that you are acting in; *efficient*, by substituting something with nothing; *systemic*, mimic nature; *profitable*, based on the idea of optimizing and generating multiple cash flows; *abundant*, where the rule is about satisfying all the basic needs; *innovative*, that encourages the creation of changes and the seize of opportunities. These six criteria represent the basis for creating and managing a business, especially during the phase of product development and process design, but also for the companies that intent to emerge on the new markets that act globally, since these principles represent a *stay-in* key concept that do not allow them to lose track and fail when facing the big red ocean fishes represented by companies that act on a multi continental stage.

#### **4. The blue provisions of the TTIP economy**

The Transatlantic Trade and Investment Partnership (also abbreviated as TTIP) is a currently negotiated commercial and investment agreement between the European Union (EU) and the United States of America (USA); after more than two years of negotiations, in April 2016 they have reached on the 13<sup>th</sup> round of negotiations; one of the main EU targets of this bilateral economic and investment talks is to achieve a balanced, ambitious and high-standard trade agreement with the US (EC, 2016). Both international players stated their desire of concluding the negotiations by the end of 2016, but due to the substance of the chapters of negotiation and the “square brackets” issues that send the diplomatic talks to the political sphere and that keep the negotiations issues in standby, TTIP will not

be reaching to an end unless the substance of the trade deal is considered to be right by both of the parties (EC, 2016).

TTIP is designed to have 24 negotiation chapters, grouped into three main parts: Market Access, Regulatory Cooperation and Rules. The first part is mainly designed in helping the companies that act on the territory of the European Union and want to emerge on the international transatlantic market and perform activities of import, export and investments. The Regulatory Cooperation concerns technical details and procedures to be followed by the companies when trading with the US, while the Rules chapters are designed to encourage mainly the small companies to invest and access energy and materials by following the new transatlantic market under the light of TTIP.

When presented at first, the TTIP idea was to encourage job creation and economic growth across all the national territories of the European Union, along with lower prices and a larger commercial offer with the help of the improved transatlantic trade and larger capital flows. The Blue Economy concepts are also encouraging companies and governments to invest and create jobs, but with less negative effects over the environment; it does not encourage the migration of companies in searching new materials and perspectives for creating cash flows, and motivates the use of local resources and the re-use of the wasted products, by using innovative technologies and investing in their friendly environmental development.

Even though TTIP chapters are conceived in such a way which has a high consideration for the protection of people and the environment, and while the sustainable development is, as the European Commission (2016) states, “at the heart of TTIP”, it does not support very much the concept of blue economy and the use of the European resources on the European land, while minimizing the needs based on imports from the United States. For this reason, the blue economy concept can only have a larger success if it will be adopted and implemented by the companies that act on the European and transatlantic market, that will redesign their perspectives and beliefs that going international, will not necessarily increase their cash flows.

Another aspect for a better implementation of the blue ocean concept is the opening of the countries to the seas and oceans, since the concept is mainly encouraging the sustainable use of the resources of the waters and the environment of the shores. Given this view, it might be of a certain importance to note that from a geostrategic perspective, the European Union has shores on several seas besides the Atlantic Ocean, among which can be reminded the Black Sea, The Mediterranean Sea, the North Sea and The Norway Sea. The United States of America on the other side, has openings and harbours on both The Atlantic Ocean and the Pacific Ocean, creating even more opportunities for

the companies to implement sustainable blue economy strategies and reduce imports and exports of goods and services from Europe and implement the six blue economy principles that were previously explained and that have as a main objective for the countries - being self-sustainable and avoid excessive commercial international trade. An important key issue of the blue ocean diplomacy behind these actions is represented by the fact that the processes of the blue economy in the transatlantic space can only be developed in the international waters, meaning in the seas and oceans that are subject for the international jurisdiction.

TTIP is an agreement that is designed to mostly develop its actions across the Atlantic Ocean, between the shores of European and US states that have specific ocean/sea based economies. Under this light, the international waters are seen as large development spaces where economic benefits can arise from oil and mineral extraction, sustainable energy production, marine transport and bioprospecting (UN, 2016). This view changes the perspective over these large spaces across the Globe that were used as waste dumping and free resource extraction. The Blue Economy concepts, if adopted and implemented, will create a sustainable development framework for the countries that will choose to use the marine resources and facilitate the job creation and investment in the human capital.

Among the negotiating chapters, both EU and US respect the rules of protecting the environment and creating sustainable economies, in encouraging the protection of biodiversity and exploit the environment in a safe manner. On the same time, they encourage small businesses to emerge on the markets and activate in areas that use the natural resources in a safe and profitable manner, by improving the quality of the environment along with the one of the services performed, by encouraging the use of highly new technologies that will ultimately result in promotion and creation of a sustainable environment. The concept does not apply very much on the intra-continental Member States of the EU and also to the federal states of the US, since the lack of water shores prevents them from using the abovementioned resources and capital, but encourages them in implementing the concepts in regard with the land natural resources, that represent already a major subject in ways of exploitation and creation of a sustainable environment.

## **5. The blue diplomacy**

As previously described, the blue economy concept is promising sustainability within a more intense use of resources provided by seas and oceans across the Globe. The blue diplomacy focuses on the diplomatic actions behind the economic environment so-created, by strengthening the role of

diplomats in promoting within their daily tasks the sustainable development of economic actors. The general idea is a parallel of what the green economy concept promotes, namely reducing environmental risks and ecological scarcities, only that the geographic area which is referred to is not the surface of the land, but the one of the water (UNEP, 2016).

The instruments of promoting this politics are the diplomats that develop their activities in embassies that represent their national interests all across the Globe. Since the issues about investments and trade include an economic factor, it can be talked about a type of specialized diplomacy, where the personnel, namely the diplomats have to gain expertise on issues like climate, water, sustainable development, trade. The role of diplomats is changing on a daily basis, in accordance to the events that come as a result of the development of the global economy. From here it can be observed the growing importance of the economic diplomacy, the international frame of this type of diplomacy being disputed between bilateral and multilateral negotiations over agreements that refer to economic benefits that are mainly developing within the international waters; here it can be referred to the recently concluded Trans-Pacific Partnership (TPP), the Transatlantic Trade and Investment Agreement (TTIP) and Trade in Services Agreement (TiSA). The secret negotiations over these agreements determined a loop in the traditional character of the development of the economic diplomacy; to the lack of transparency, the evolution of communication and the specialization of the diplomacy as a whole, that allows outsiders – namely specialists in the given areas – to attend and negotiate in the name of the states, the economic diplomacy began to each new dimensions, uncommon and innovative, barely transparent, designed to act in the benefits of the states and avoid the potential rising voices of the public opinion.

The new diplomatic dimension is referred mostly to the trade that is developed on waters, oceans and seas that separate countries and continents from each other. The main actors of this stages are corporations and businesses whose management decided to go international. The so called blue diplomacy has a number of aspects that define it: promotion of sustainability and the protection of the environment; the use of local natural resources that can increase considerably the cash flows, reducing the necessity of going international for reaching the needed resources; the space to which these rules are referred to – the international waters of seas and oceans and the most important, the specialization of the diplomats that implement these concepts, CEOs from large corporations or businesses, career diplomats that helped the states to negotiate and implement the international treaties provisions, or representatives of the high-level diplomacy, namely State Presidents or Prime

Ministers, or national and international Institutions that have competence in taking decisions about trade.

The blue diplomacy is the new version of the green diplomacy, developed on waters; the blue ocean diplomacy is referred to the trade actions across the world, the commerce which is made with the help of naval fleets, transporting goods and performing services for a large number of seafarers. The principles are complementary, both on land and on the waters; the need of economies of going international and performing actions of trade and investments present the need to be considered under the light of the blue ocean diplomacy, since the rules that govern this space (mainly coming from international bilateral and multilateral agreements, besides the WTO) are already designed to obey and promote these policies.

The role of the diplomats represents the key in the future success of implementing these concepts; their academic and practical background should determine economies to respond to their basic needs with the resources that they have available, to encourage the introduction of innovation and new technologies in the industry by respecting nature and investing less, process that will ultimately result in job creation and social capital development.

### **Final remarks**

The economic diplomacy, even if it is a relatively young branch of diplomacy, quickly evolved and disintegrated itself into various types of new diplomatic forms: corporate diplomacy, business diplomacy and the most recent, blue diplomacy. Coming as a parallel of the green diplomacy which is mainly targeting the practice and implementation of rules and regulations on the land, the blue diplomacy keeps the same framework only that it shifts from continents to the oceans.

The actors that are commonly met on the oceans are the trade fleets that represent the interests of corporations, businesses and state interests from all across the world. They only obey the international waters legislation that reunites them under the same WTO and other international frameworks which are generally applied on the seas and oceans. The blue ocean diplomacy is mainly a subject of interest for the states that have opening shores to the waters, since the main provision of this new concept regards the sustainable usage of the natural resources of the waters. This regards mainly the national legislation and it is generally being implemented by the states.

But what is happening when diplomats have to learn to implement sustainable politics throughout negotiations of international trade agreements and have to implement it throughout the companies and businesses that are subjects to the newly adopted international legislation. The

majority of the raw materials movement across the Globe it is made on the water. The transatlantic trade which is performed by the EU and the USA is a subject of a great importance for the international markets; for this reason it is of a great importance that TTIP will be soon going to be completely negotiated and ratified. By following this perspective, the diplomats that attended the negotiations over TTIP, an agreement that promotes the ideas of sustainability and protecting the environment will become the next experts that will help the national representatives, but also the corporations and business that act international, to implement the new provisions.

This newly developed type of diplomacy will regard the reduction of the carbon emissions, the encouragement of implementing new technologies for transportation and exploitation of the available resources, requesting a personnel that shall specialize in the given areas. The blue ocean diplomacy concept will mainly refer to the transatlantic space and the trade that is occurring within the international waters between Europe and North America. The diplomats will be specialists in the specific fields, will be part of the existing and future economic diplomats that act within the Foreign Ministries of the states, but will also count corporate managers and CEOs that will add value to the way the transatlantic trade will be done under the TTIP. The economic diplomacy that will be developed within the transatlantic framework will be a subject of a great interest for the practitioners, both diplomats and business developers, since the idea of sustainability on the waters and cost reduction is not largely embraced and applied by the existent society.

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## THE NOTION OF REFUGEE. DEFINITION AND DISTINCTIONS

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**Abstract:** *Europe has been recently shaken by the great number of persons coming from Syria and neighbouring countries which were calling themselves “refugees”. According to the United Nations Refugee Agency, since 2015 more than 1 million refugees travelled to Greece. This paper aims to analyze the notion of “refugees” in light of international legal instruments applicable and to draw up distinctions between different categories of migrant persons and those who are really refugees and may apply for international protection under the 1951 UN Convention on refugees. The distinction regarding the use of terms is relevant for shaping the legal status of different persons who leave their country of origin.*

**Keywords:** refugees, international protection; safeguards; limits

**JEL Classification:** A1; A2

### Introduction

The UN 1951 Convention is the core international legal instrument relating to the protection of refugees, also known as *Magna Carta* of international refugee law and it includes the definition of this notion and establishes the obligations for the contracting States. The Geneva Convention sets the basic standards on the legal status of refugees and their international protection to which the States parties may offer extensive rights (Fortin, 2000).

The aim of the 1951 Geneva Convention was to establish a framework of international protection for the great number of refugees resulted after the World War II. The Convention entered into force on 22 April 1954 and its provisions were amended by the 1967 Protocol which removed the geographic and temporal limits of the 1951 Convention (the initial provisions limited the refugee status to persons fleeing events prior to 1 January 1951 and within Europe).

The recent events in the Middle East reveal that a massive influx of persons seeking the status of refugees in Europe are putting the European States in great difficulty in complying with the requirements of international instruments. Moreover, some of the measures undertaken at the domestic level by some European States are inconsistent with the international contracted obligations. International law provides the rules of *non-refoulement* to persons having the status of refugees and

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also the interdiction of detaining them or to impose criminal sanctions on those who enter the State territory unlawfully (according to Articles 31 and 33 of the 1951 Geneva Convention).

At the same time there are many situations when the term *refugees* or *asylum seekers* is used as a synonym for *migrants*. The use of these terms as interchangeable favours confusion between different categories of persons who leave their country of origin on account of persecution and seek for international protection and the persons who leave their country voluntarily in search of a better life, but without a well-founded fear of persecution.

The first category of persons may receive international protection and assistance under the 1951 Geneva Convention, while the latter does not meet the requirements for such a legal status. The distinction between these two categories is of high importance from the perspective of State control and its possibility to impose restrictions on free movement.

In matters concerning migration, States enjoy an extensive degree of discretion in exercising control and restricting the entry of foreign persons (Hansen, 2014, p. 258). In other words, International Law provides the right of free movement but this right is not absolute as States may consider a ban to entry their territory for persons who represent a danger for the public order.

Migration is understood as a socio-economic phenomenon, being caused by looking for jobs, family reunification or education opportunities (Long, 2013), while lacking the element of persecution or fear of persecution. However, it is not possible to eliminate any economic interest for those who seek protection as refugees. For this reasons, in some cases, drawing a strict line between the two categories may be a difficult process.

### **1. Definition of refugees in the 1951 Geneva Convention**

According to Article 1 A (2) of the 1951 Convention, a refugee is a person who is unable or unwilling to return to his country of origin “*owning a well-founded fear of being persecuted for reasons of race, religion, nationality, membership of a particular social group or political opinion*”.

Hence, refugees are defined by three main characteristics: physically they are outside their country of origin; psychologically, they are unwilling or unable to return to their country of origin due to a fear of persecution; causal element – the fear of being persecuted is based on grounds of race, religion, nationality, membership of a particular social group or political opinion.

The emphasis in this definition is on the need for protection of persons, from persecution based on politic opinion to any other forms of discrimination. The significant element of refugee's legal

regime is that they lack protection of their own country, being in an intolerable situation and the refuse of providing protection for them could have severe or even deadly consequences.

The reading of this definition reveals a gap in the causal element of the refugee's status: it does not explicitly provide this sort of international protection in case of an armed conflict. However, the legal status of refugees provided by the 1951 Geneva Convention is completed by general rules of international law, human rights law and international humanitarian law (especially the *Convention (IV) relative to the Protection of Civilian Persons in Time of War* and the *1977 additional Protocol*).

Another gap is that its provisions do not apply to persons who are persecuted not because of their political opinions, but because of their opposition to government's generally binding acts. Moreover, the definition should also concern persons who committed acts of resistance against political regimes that do not recognize public freedoms and fundamental rights (Casanovas, 2003, p. 33) and those who leave their country because of systematic violations of human rights or because of civil wars and social disorder (Aleinikoff, 1991; Casanovas, 2003, p. 33). In these cases it would be very difficult to prove the element of persecution which is necessary for granting the legal status of refugee.

As opposed to this extensive interpretation, the strict interpretation of the Convention's provisions only covers those situations when protection is absolutely necessary and thus they do not apply to economic migrants (also improperly called economic refugees) nor to persons suffering from natural disasters or civil wars.

The foundation of the international protection of refugees is Article 14 of the Universal Declaration of Human Rights which asserts that everyone has the right to seek and enjoy asylum. Although international law does not define the word "asylum", it has become a generic term that designates the protection provided by a country to persons claiming the refugee legal status on its territory. Asylum means, at the very least, basic protection - i.e. no forcible return (*refoulement*) to the frontiers of territories where the refugee's life or freedom would be at risk, with the possibility of staying in the host country until a solution outside that country can be found (IPU, 2001). States may extend the meaning of this term in their legal order.

## **2. The principle of non-refoulement**

States parties to the 1951 Geneva Convention have the negative obligation not to return a refugee to his country of origin or territory where he would face the risk of persecution. This rule is

known as the principle of *non-refoulement* (Chetail, 2014, p. 9) and it is a part of customary international law applicable to all States. Moreover, it is considered a *jus cogens* - imperative rule of international law (Combacau and Sur, 2006).

According to Article 33 in the Convention “*No Contracting State shall expel or return (“refouler”) a refugee in any manner whatsoever to the frontiers of territories where his life or freedom would be threatened on account of his race, religion, nationality, membership of a particular social group or political opinion.*”

Reading this provision reveals the lack of protection from the country of origin of refugees and that States have the negative obligation in offering this element of the protection by not expelling refugees to territories where their life or freedom would be at risk.

### **3. The limits of the international protection provided by the 1951 Convention**

The international protection of refugees has an individual character and contracting States have the obligation of recognizing this legal status and not returning refugees to their country (Casanovas, 2003, p. 33).

Granting asylum and international protection by States is greatly influenced by the exercise of State sovereignty, which may be subject only by the international commitments undertaken by States such as to cooperate in order to protect persons who objectively and subjectively lack the protection of their own countries. At the core of the refugees’ legal status is its humanitarian nature and thus it should not be seen as an unfriendly act.

A more extensive definition on the notion of refugee is given at regional level, by the *Convention Governing Specific Aspects of Refugee Problems in Africa*, adopted in 1969 within the Organization of African Unity (OAU). This added more objective consideration to the definition given by the UN 1951 Convention and is referring to refugees as *any person compelled to leave his/her country owing to external aggression, occupation, foreign domination or events seriously disturbing public order in either part or the whole of his country of origin or nationality*.

In 1984, the Cartagena Declaration adopted by Latin America governments added a more objectively consideration to the definition from the 1951 Convention and includes persons who flee their countries “*because their lives, safety or freedom have been threatened by generalized violence, foreign aggression, internal conflicts, massive violation of human rights or other circumstances which have seriously disturbed public order*”.

As a result of the evolution of States' approach on the legal regime of refugees and the insufficiencies of the 1951 Convention, regional legal instruments added more precise criteria for the refugee legal status, in order to be able to extend the possibility of granting international protection to persons in need.

#### **4. Safeguards for the refugees unlawfully entering the territory of the hosting State**

Taking into consideration that refugees are vulnerable persons, the 1951 Geneva Convention also protects those unlawfully in the hosting State, in Article 31 who reads as follows:

*"1. The Contracting States shall not impose penalties, on account of their illegal entry or presence, on refugees who, coming directly from a territory where their life or freedom was threatened in the sense of article 1, enter or are present in their territory without authorization, provided they present themselves without delay to the authorities and show good cause for their illegal entry or presence.*

*2. The Contracting States shall not apply to the movements of such refugees restrictions other than those which are necessary and such restrictions shall only be applied until their status in the country is regularized or they obtain admission into another country. The Contracting States shall allow such refugees a reasonable period and all the necessary facilities to obtain admission into another country."*

The terms used in this provision may be subject to a number of observations. Firstly, *unlawful* or *unauthorized entry* on the territory of a State may prove necessary and indispensable, because persons claiming the refugee status do not enjoy the right to freely enter and remain in a State of potential refuge. Basically, this provision shows that under the right to free movement, persons have the right to leave any country, including one whose nationality they have, but they do not enjoy a correlative right to enter the territory of another country. Article 31 contains no details as to how States qualify an entry as unlawful or unauthorized, which means that states have *prima facie* unlimited powers in defining these concepts.

Secondly, paragraph 1 of Article 31 provides that States parties are compelled not to impose criminal penalties for unauthorized entry and stay within their territory. States enjoy the possibility of applying restrictions on the movement of refugees but this is limited by the granting of refugee status or admission to another state.

Neither this text nor other provisions under the Convention does define nor provide examples of admissible restrictions to be imposed by the State in order to protect certain legitimate objectives such as that of protecting its citizens and the public order. Commonly, the notion of *penalties* may refer to prosecution, criminal penalties, criminal fines, criminal conviction, imprisonment and other restrictions on freedom of movement of the person concerned. Therefore, these concepts fall within the scope of this provision.

According to the second sentence of paragraph 1 of Article 31, in case of refusal of granting international protection as a refugee, the hosting State has the obligation to provide the asylum seeker the time and facilities necessary to ask for the recognition of that status in another state. In this regard, the provision of the Convention is again elusive as it does not set criteria for the analysis of the reasonableness of the time period allowed or the nature of the facilities which the State is required to provide for the admission of a person in another State.

Although the purpose of Article 31 appears to be protecting people who are seeking protection in the form of granting the refugee status, some States (in Europe, North America and Australia) frequently apply restrictions as the arrest and detention of persons seeking such a form of protection and these types of restrictions have serious consequences for the person concerned, similar to penalties, even if they do not have this legal nature according to domestic law (Noll, 2011, pp. 1243-1246; Goodwin-Gill, 2001).

The analysis of these provisions reveals that States enjoy an extensive margin of discretion in applying restrictions, as long as they are not qualified as being criminal penalties.

Thirdly, the scope of the first sentence of paragraph 1 of Article 31 is limited to persons coming directly from the state where they are in danger. In other words, the benefit of not applying criminal sanctions is conditioned by direct arrival in the hosting State, excluding those who come from the territory of another State, where they did not receive the refugee status.

## **Conclusions**

The 1951 Convention is subject of criticism due to the fact that its frame of protection may be considered incomplete and outdated. However, one must take into consideration that since its conclusion and the founding of the United Nations Refugee Agency, over 50 millions of people were granted protection and were helped to restart their life.

On the other hand, we must underline that the aim of the Convention was not to control migration, but to offer protection to those who lack protection from their own country and face a well

founded risk of persecution. Although the Convention does not provide specific and detailed information on all aspects for States, in order to comply with their obligations and different States do not respect entirely its safeguards, the idea of building walls or protection fences at the border lacks any foundation from the international legal framework.

European States are trying to lessen their obligations towards refugees on reason of protecting public order and their citizens against terrorism. This kind of conduct may be interpreted as contradictory to the ideals in terms of protecting fundamental rights and freedoms and to the principles of the 1951 Convention. According to the general rules of interpretation of the 1969 Vienna Convention on the law of treaties, the provisions of the Geneva Convention should be interpreted in the sense of effectiveness of its provisions, not in the sense of limiting the extent of the States obligations.

Having in mind that the refugee phenomenon is not a new one, States should make efforts in adapting their policies to the new situations and respond to them in accordance with international obligations they have contracted. Thus, the legal framework on refugee's legal status should receive rather a dynamic interpretation and not a static one (Feller, 2001).

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## IS THE DCFTA BETWEEN EU AND UKRAINE NEGATIVELY IMPACTING RUSSIA'S ECONOMY?

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**Abstract:** *This paper aims to highlight specific aspects and consequences of the dual nature of relations between Russia and Ukraine in the context of DCFTA's implementation. We are interested to encounter the point of contact and the interference areas to which Ukraine is referring to secure its balance, considering that its economy and market are traditionally oriented toward Russia and DCFTA is reorienting it toward EU and in this context, to show that the Russian economy is not, fundamentally, affected. Based on the statistical data that provides the economic situation of the two countries (import, export, FDI, labour migrants) before and after signing the treaty, we will analyse the manner in which DCFTA affects the Russian economy. The findings indicate that the implementation of the DCFTA does not have the potential to cause instability in trade relations between Ukraine and Russia, and that, precisely, the hostile actions of Russia against the DCFTA has jeopardized the country's position on economic actors arena.*

**Keywords:** DCFTA; Ukraine; Russia; trade; economic consequences; sanctions

**JEL Classification:** F51; F5

### Introduction

The purpose of this article is to show that Ukraine's geopolitical area is not likely to cause major changes in the regional economic balance in which Ukraine and Russia have been and continue to be core parts.

The collapse of the Soviet Union and its split into different independent republics, led the West to create a new foreign policy. Its target was an attempt to establish links with neighbouring countries, which even if they were already independent, could not escape from the influence inherited from the Russian Federation. Among these republics, Ukraine has always been an attraction, because it holds resources and it represents the border between Europe and Asia (Brzezinski, 1997). After the collapse of the Soviet Regime both Russia and EU focused on Ukraine through the enlargement policy.

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Western scientists believe that the reorientation of Ukraine to EU means cooperation in terms of economy, tourism, transport, etc, while for Russia it is a strategic partner in its domination.

As a result of this situation, Ukraine decided in 2014, after years of negotiations, to sign a free trade partnership with the EU. These two had signed a treaty in 1994, but relations between them were not tight enough because Ukraine was under Russian domination. In 2004 in the context of the Orange Revolution, which led to the democratisation of Ukraine, the EU has urged Ukraine to have a relationship of close cooperation. So, in May 2009, the EU launched Eastern Partnership Cooperation with the six countries of the EEP, which created tensions in its relations with Russia. EU called on its EEP partners to discuss the terms of the partnership AA - Associations Agreement, Deep and Comprehensive Free Trade Area (DCFTA), and Visa Facilitation and Readmission Agreements (Anders, 2013). As a result, Ukraine was the one who wanted to progress more than other countries, so the object of the meeting was DCFTA negotiations. The final negotiations of this treaty occurred in 2012 and 2013 with the occasion of the Summit in Vilnius, but the President of Ukraine, Victor Yanukovich, cancelled the signing. Cancelling the signing of this treaty provoked the Maiden Movement to remove the President, which resulted in the starting of the civil war and the annexation of Crimea to Russia. This created tensions in the relations between EU and Russia, which latter were penalized in terms of economic collaboration. Signing the treaty with Ukraine has been delayed until September 2014 under these circumstances and its implementation started from January 2016. Given the brutality wherewith Russia punished Ukraine for the desire to get out from under its wing (severe punishments and removal of Crimea), the latter decided that the only way towards evolution and security is EU, through DCFTA Treaty.

Ukraine crisis has opened a new wave of old rivalries and clashes between opponents of the Cold War. Quick changes in West Ukraine in late February 2014 made things lose their balance, Russia feeling cornered and the relationship between the two ended with a wave of sanctions. Beyond Ukraine, the struggle for influence between the two is a real one that will have major consequences.

This paper aims to highlight the extent to which the implementation of the DCFTA negatively influences the relations between Ukraine and Russia. To achieve our goal, we used qualitative analysis, based on trade relations between the two countries before and after the implementation of the DCFTA Treaty. Based on the data provided by the literature, we carried out an analysis of the origin of the imports, the exports, their structures and the direct investments of the two countries. Has Russian economy suffered due to the implementation of this treaty? The paper aims to answer this question by the analysis undertaken. The Ukrainian market was, and still is, traditionally oriented towards the Russian market, so signing the agreement with the EU caused tensions. The main

objective of this paper is to find out whether Russia's economy is really affected by the DCFTA between the EU and Ukraine or his own actions create economic regression. We believe that what affects mostly the Russian economy are its own deeds. Russia's interests are actually who makes the rules. Will this stubbornness lead to Russia's geopolitical and geostrategic economic stagnation or regress? Why Ukraine has chosen EU?

## **1. Literature review**

DCFTA is a relatively new trade policy. The notion of free trade first appeared in the 1990s, when the Barcelona Process launched a series of trade agreements between the EU and the Southern Mediterranean countries (De Wulf and Maliszewska, 2009). For the European Union, the concept of integration with external partners and the design of DCFTA has been drawn from the experience of building the Single European Market and the European Economic Area in the 1980s and 1990s and the subsequent EU enlargements.

The implementation of the DCFTA is an important step in the EU's attempt to integrate underdeveloped markets, targeting the former centralized states from Eastern Europe (Hoekman, et alin. 1999). Ukraine, one of the countries concerned, was invited in 2007 to take part in negotiations with the purpose of signing the Association Agreement with the EU. Due to the long commercial relations between Ukraine and Russia, the first had also another route to free trade, respectively EaP. However, signing a new trade agreement with Russia was not at the time, an option for Ukraine, given that they held through CIS free trade privileges (Evans, 2004).

The concept of free trade integration can be interpreted in a broader sense, beyond trade and investment issues, free movement of people and labor, in practice DCFTA includes the following components (Evans, 2004):

- investment rules;
- product standard or process standard;
- regulations of anti-duping procedures;
- beyond WTO rules the limitation of using subsidies limitation;
- regulation of service provision;
- institution/s to monitor the implementation of agreement;
- dispute settlement mechanism.

Emerson (2006) and Ecorys show that DCFTA which additionally incorporates a reduction on different non-tariff barriers and the liberalization of trade in services, would have a positive impact on Ukraine's welfare compared to the simple one where the impact is smaller or slightly negative. Maliszewska (2009) found some support by stimulating the different FTAs between EU and CIS. The results indicate that Ukraine benefits the most among the CIS country and the gains from the deeper integration (5.83%) are higher than those from the simple tariff reduction (1.76%).

DCFTA is more than just a trade agreement and it is based on the following aspects (European Commission): openness to other markets by removing progressive tariffs and restrictions on services and public procurement (except automotive sector for which is established a period of transition and agricultural goods where it requires various concessions because of the sensitivity); fair competition between companies from EU and Ukraine by ensuring respect for intellectual property rights, new standards in terms of environmental protection and safety at work, prohibition of anticompetitive practices or any other action whatsoever which distorts competition and trade, creating a process of harmonization for EU investors, free movement of capital including standard protective measures, the adoption by Ukraine of the EU legislation on public procurements, except military ones.

The benefits to Ukraine from closer trade integration with EU are potentially huge (new technologies, higher quality standards, know-how and raising the energy efficiency of the recipient countries' economies which remain a challenge for Ukraine) (Astrov, 2015). Ukraine is offering EU a cheap but generally well educated labor force and a higher degree of political stability. This agreement does not rule out that Ukraine maintains close trade links with Russia. Ukraine could potentially attract European investments into production of goods destined for Russian market. The Russian market is important to Ukraine because Russia is the principal export market for Ukraine's more sophisticated products (machinery, equipment) and Russia is Ukraine's single most important destination (Wolckzuk, *et al.*, 2015).

The re-orientation away from Russia will be politically painful and economically costly for Ukraine. What is a technical matter is now a political one. The current level of quotas for Ukraine, especially for agricultural products, needs further revising on unilateral basis. In case if EU restricts market access for key agricultural products from Ukraine, the Ukrainian producers have no choice but to rely on access to the Russian/Eurasian market, despite arbitrary restrictions imposed by Russia. They will be forced in this conditions to adapt to regulations of the Russian/Eurasian market but will remain highly sensitive to the political aspects of relations with Russia. The economic and social costs for the electorate in eastern and southern Ukraine will have repercussions for Ukrainian domestic politics (Wolckzuk, 2014).

Russia is well positioned determined to undermine Ukraine's European integration in three ways (Wolckzuk, 2014). First, Russia can draw upon a much broader spectrum of instruments than EU and, unlike EU, does not hesitate to deploy punitive measures, even by transgressing domestic and international law. Second, Russia exploits the weaknesses of EU's strategy by stressing the short-term costs and benefits from integration with the Eurasian regime, as opposed to the long-term benefits derived from integration with EU. Russian officials refer to the DCFTA as 'suicidal' for the Ukrainian economy and will miss no opportunity to highlight any losses and disruptive effects. Third, Russia exploits specific needs and vulnerabilities of the countries located in the 'near abroad'. Russia carefully selects its instruments from the wide array at its disposal to target specific countries, domestic actors, regions, sectors etc. As a result, the price imposed by Moscow for 'moving away' from Russia further increases the already high costs of closer economic integration in EU for Ukraine.

There is no doubt that the prospect of integration into the EU single market offers the best chance for the neighbouring countries, including Ukraine, to modernize and foster economic growth. But the aquis is not easily transposed to the eastern partners, given their political, economic and administrative context. Using the AA-DCFTA (Shirmammadov, 2015) as a template for reforms in Ukraine raises some formidable challenges, at the very time when successes and failures have high-profile political geopolitical stakes, owing to Russia's efforts to undermine European integration as a viable option for all the eastern partner countries in general and Ukraine in particular.

## **2. Why is Russia against?**

Russia has made a number of criticisms about the signing of DCFTA agreement on the grounds that it harms its economy. In response to the aversions launched by Russia, EU suspended the signing of DCFTA by the end of 2015 (so that Russia will not attack Ukraine). The negotiations, however, confirmed that the harmful effects of this treaty, which Russia has claimed, are merely an excuse (Drayer, *et al.* 2014). Many conflicts could be solved by negotiating with the WTO, Russia has shown very little interest in this, and concerning the trade issues, things have escalated to the highest political level, it is full of geopolitical and military issues. We can say that there are solutions to solve this conflict, but Russia seems to be more concerned with who sets the rules.

Following the conclusion of the agreement, Russia did not delay any action against Ukraine. In July 2013 Russia banned the import of Ukrainian Roshen confectionery with the pretext that they don't comply with food safety standards. Ukraine has challenged them in WTO meeting on technical

barriers for trade (TBT) and compliance with the rules (SPS). In addition to these, new controls were imposed to products imported from Ukraine, because they fall into the high risk category, which led to suspension for a few weeks. The sanctions against Ukraine did not stop there, in October 2013 Russia banned the import of cars (Ash *et al.*, 2014), refusing to recognize the certificates of quality for several producers, so that in February 2014 they ban the import of various products of poultry from Ukraine. Rospotrebnadzors withdrew the certification of MHP Company, one of the largest suppliers of poultry, which resulted in redirecting its products to other countries, including EU.

The sequence of sanctions included banning imports of cheese, dairy, alcohol and potatoes on the grounds of food safety issues but stopping the gas supply was one of the most important economic sanctions.

Ukraine was excluded from CIS, the free trade agreement signed with Russia, which reduced exports by \$ 3 billion, that is 17% of total exports to Russia and corresponds to 1.7% of GDP (Ryzhenkov, *et al.*, 2013). In response to the Russia's attacks, Ukraine halted military cooperation and the delivery of military supplies.

The President of Ukraine signed in September 2015 a law on sanctions that could be used to stop economic relations with Russia. The list contains 25 possible measures, does not limit the freezing of assets, restrictions and transit trade, economic and financial liabilities suspension, revocation of licenses, permits and visa bans. In June 2014, the national gas company Naftogaz accused Gazprom from Russia in terms of price and debt issues by arbitration in Stockholm.

Russia was later sanctioned by EU due to its actions against Ukraine. As a result, EU has restricted the entire access of Russian capital market investments, thus forbidding five major Russian banks loans for proper and interbank cooperation and financing services. Besides European countries do not support oil exploration in the Arctic, nine major companies from Russia and 24 persons have been declared persona non grata (Ash *et al.*, 2014).

The reorientation of Ukraine to the European Union represents more than an economic problem due to the position that it holds in this state domination recovery plan that Russia has lost once the collapse of the USSR. During two decades, geopolitical visions of the former states under Russian domination have turned their attention to the new solid block that seemed to guarantee a more promising trend. In this direction, Ukraine and Moldova seem to be the only European states still remaining under a heavy dependence on Russia.

### **3. Methodology**

The methodology used to achieve the goal is based on a qualitative analysis. Using statistics we try to emphasize the share of trade relations between Russia and Ukraine. The methodology includes desk research from primary sources and secondary sources and statistical data provided by world organizations. The main aim of the article is to find out if DCFTA is negatively or positively affecting Russia and to explain a broad range of mutual political, economic and security interactions between Ukraine - Russia and Ukraine - EU and to find possible answers to the decision made by Ukraine's government.

To reach the goal in the framework of chosen methodology, focus areas were defined accordingly to the two blocks of potential influential explanations that were identified as most popular through the collected information. First area concentrates on the Agreement by itself and on the official announcement of the Ukraine's government, that the decision to sign an agreement would not be beneficial for the national security interests of the country. Second focus is on the influence and the economic pressure of Russia regarding Ukraine's decision. For this purpose, we analysed the economic relationship between Russia and Ukraine. The process tracing of the research will be provided through bilateral treaties, documents, strategies between Ukraine - EU and Ukraine - Russia, statistical data of market patterns, public statements by officials, involved variables and similar cases in terms of economic data.

To understand the long history of Ukraine towards EU integration and AA is important to describe: EU framework for cooperation – European Neighborhood Policy and Eastern Partnership (EaP), the beginning of relationships in 1991 and Ukraine's foreign policy's priorities. Before the signature of AA, Partnership and Cooperation Agreement determines areas of cooperation between Ukraine and EU. Final text of AA and the requirements of the EU for Ukraine to sign the agreement will be applied accordingly to the Ukraine's official position – how it is influencing national security interests of Ukraine.

To continue the broad description of complicated relationships between Ukraine and Russia since 1991 is important to understand the pre-history of both actors before independency of Ukraine and close cultural ties. The suspension to sign an agreement will be analysed through political, economic and security factors. Comparison of the main tendencies in the market (import, export, FDI) with Ukraine will provide statistical arguments about Russia's real impact on Ukraine's economy.

Through the research, we tried to highlight the warning signals that were not appropriately evaluated by EU regarding “bluffing” Ukraine about its’ efforts to sign the agreement and causality mechanisms (mutually interacting factors) of the decision made by Ukraine. It also answers the “what if” question – more precisely, what if EU would act differently during negotiations or what if Ukraine would. Following, we will analyse the results of the DCFTA signing, if they negatively or positively influence Russia's economy.

#### **4. Trade relations between Ukraine, Russia and EU**

The rivalry between the European Union and Russia, those two areas of interest to the former states under Soviet domination, began long before the annexation of Crimea to Russia and Russian political intervention in Ukraine. During two decades, the geopolitical visions of those states have turned their attention to the European Union, as able to guarantee a more promising economic development. Thus, the sharing of common neighbours between European Union and Russia turned into a competition between integration projects, namely the Eastern Partnership and Eurasian Customs Union (Delcour *et al.*, 2014). In this respect, Ukraine and Moldova seem to be the only states that still experience a heavy bondage with Russia.

The link between Ukraine and Russia goes over the arguments of neighbourhood area and trade partnership relations. Citing the traditional side, these two countries are strongly linked to the ideology of a centralized economy, creating an umbilical bond that spread in political, economic, trade framework of Ukraine.

The nature of DCFTA agreement aims the economic integration between the European Union and Ukraine, not a political one (Duleba, 2014). In this regard, the trade between Russia and Ukraine do not represents the subject of the DCFTA agreement. Ukraine is, in this case, free to establish her priorities, whether it’s about agreements and geopolitical groups, or about other directives and standards regarding trade with other countries. In addition, Ukrainian entrepreneurs are free to choose their partner markets and to produce at those standards, namely the Russian market, either the Chinese or the European markets (Emerson, 2014) and thus Russian-Ukrainian trade will continue to be held at the standards established between the two sides, respectively WTO standards, the same applied within the EU.

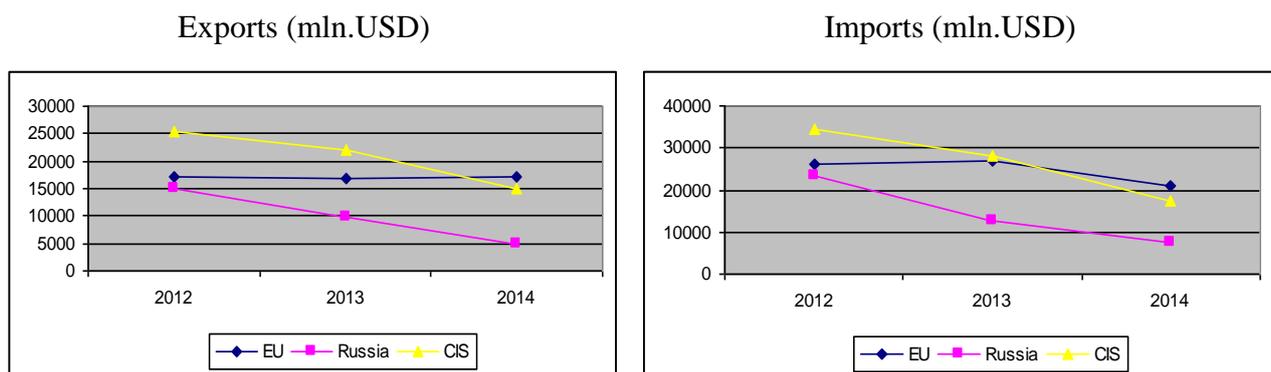
Michael Emerson (2014) brings forward the issue of "flooding the Russian market with European products" and approaches the subject by the rules of origin of goods. In this respect, Russia’s trade dynamics is being protected. The Russian imports whose origin is European Union are

charged according to WTO rules, even if they come from Ukraine. The exceptions of this rule are products for that Ukraine brings an added value contribution, thus benefiting from the free trade privileges of CIS agreement. Excluding Ukraine from CIS removed this issue.

The implementation of DCFTA provides opportunities for both subjects of the agreement, namely the European Union and Ukraine. Trade liberalization between these two offers a privileged position for Ukraine amid the opening of those 28 markets of European Union. Rilka Dragneva and Kataryna Wolczuk (2012) outline the impact that the implementation of the DCFTA will have on Russian companies. Are highlighted in this case the new business opportunities for Russian companies from Ukrainian territory, and for those from Russian territory.

The trend observed in the period 2012-2014 is the reduction of trade volume between Ukraine and Russia, this being attributed to Russia's actions to reduce dependence on trade with Ukraine, especially imports (Emerson, 2014).

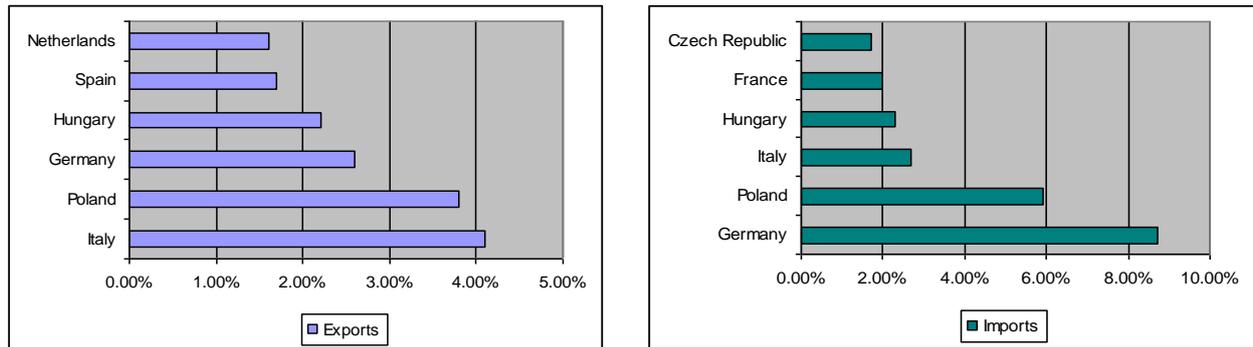
**Figure 1 - Ukraine's Foreign Trade in Goods**



Source: State Statistics Service of Ukraine, own processing

Thus, the volume of exports to Russia declined significantly since 2012, reaching one-third in 2014 compared to 2012. Since the DCFTA was signed in June 2014, is denied its ability to influence the dynamics of Russian-Ukrainian trade. This downward trend was also observed with other trading partners, such as CIS, for which exports were reduced by approximately 45% over the same period. On the other hand, trade relations between Ukraine and the European Union have not known significant fluctuations, fact that can be explained by the gradual accommodation to standards established by DCFTA agreement. The main European Union destination countries of Ukrainian exports are Italy, Poland and Germany, mainly exporting: metal products, chemicals and vegetable products, minerals, equipment, plant and machines.

**Figure 2 - Main trade markets of Ukraine in EU (% from total)**

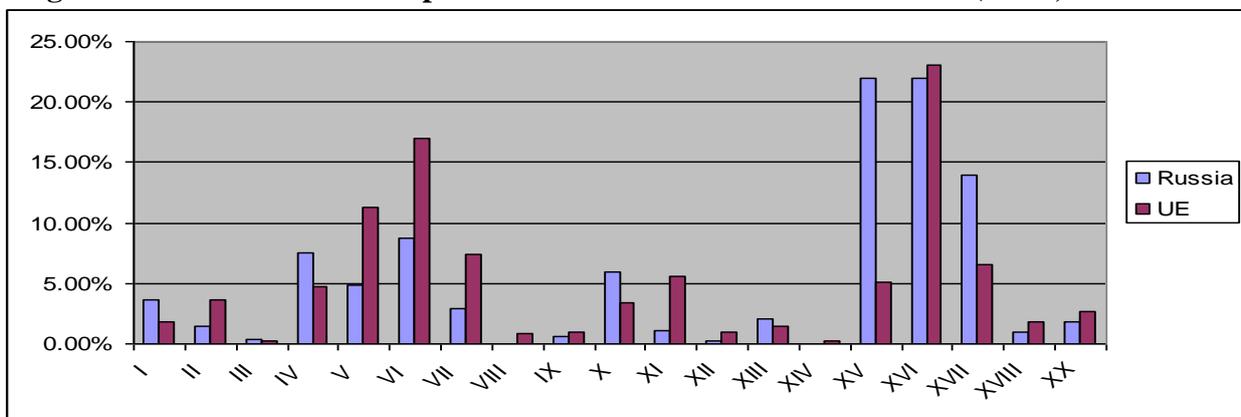


Source: State Statistics Service of Ukraine, own processing

If, on the one hand, the EU market is larger than the Russian market, also more advanced functionally and organizationally, and, on the other hand, Russia is known as the long-lasting ideologically political and trading partner, for Ukraine these two markets are equally important (Havlik, 2014, pp. 28-29). However, in terms of trade structure, the UE and Russian markets are so different thus they cannot influence each other.

Ukraine’s most important export sectors to Russia are machinery, representing gas turbines, pumps, transformers and electronic equipment, and base metals and articles of base metal, each holding a share of 22% in 2013, followed by vehicles, aircraft, vessels and associated transport equipment by 14% and we chemicals products by 8.7%. Regarding the export structure between Ukraine and the European Union, this consists in mineral products (11%), chemicals (17.5), machinery (23%) and plastics and articles thereof (7.5%).

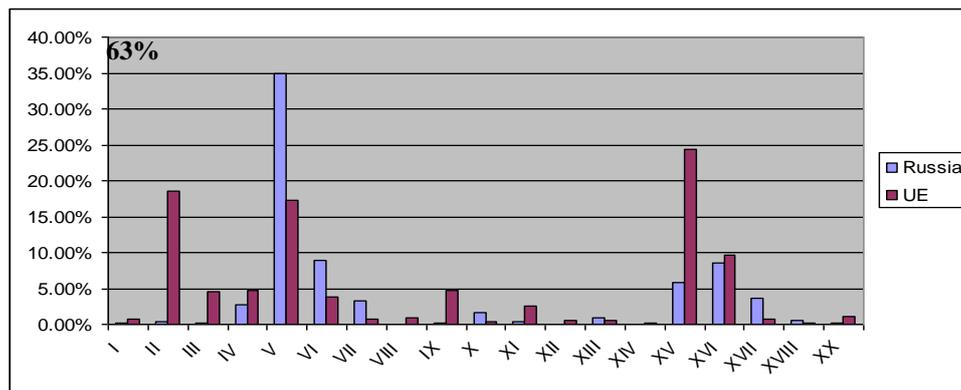
**Figure 3 - The structure of exports between Ukraine and Russia / UE ( 2013, % from total)**



Source: Eurostat and Observatory of Economic Complexity, own processing

The structure of Russian imports, it is dominated by a large proportion of mineral products (63%), followed by chemical products (8.9%), machinery (8.5%), base metals and articles of base metal (5.9%). From the European Union, Ukraine imports, vegetable products (19%), mineral products (17.5%), base metals (24.5%), machinery and electronic equipment (9.5%).

**Figure 4 - The structure of imports between Ukraine and Russia / UE (2013, % from total)**



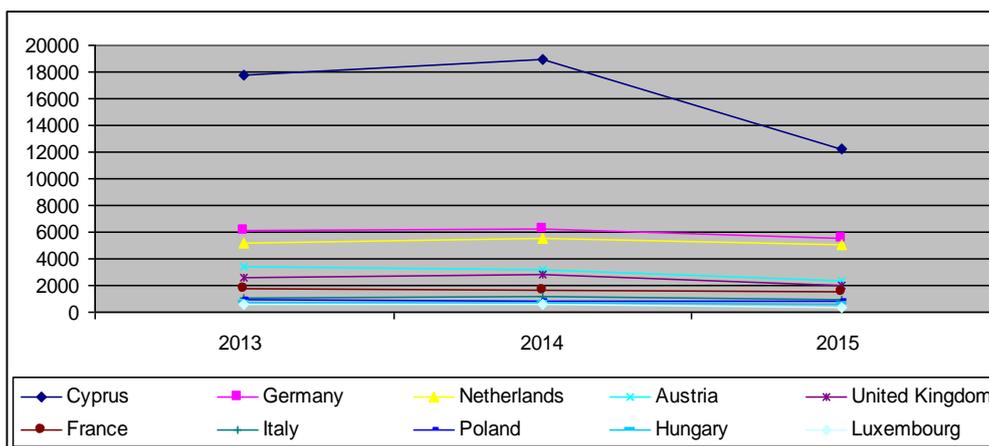
Source: Eurostat and Observatory of Economic Complexity, own processing

Legend: I Live animals, animal products; II Vegetable products; III Animal or vegetable fats, oils, waxes, prepared edible fats; IV Prepared foodstuffs, beverages, tobacco and substitutes; V Mineral products; VI Products of the chemical or allied industries; VII Plastics and articles thereof, rubber and articles thereof; VIII Raw hides and skins, leather, fur skins and articles, etc.; IX Wood and articles of wood, wood charcoal, cork, etc.; X Pulp wood, paper or paperboard (incl. recovered) and articles; XI Textiles and textile articles; XII Footwear, headgear, umbrellas, walking sticks, etc.; XIII Articles of stone, plaster, cement, ceramic products, glassware; XIV Natural or cultured pearls, precious stones and metals, etc.; XV Base metals and articles of base metal; XVI Machinery, mech. Appliances, electric- equipment; XVII Vehicles, aircraft, vessels and associated transport equipment; XVIII Optical, measuring, medical instruments, clocks, musical instruments, etc.; XX Miscellaneous manufactured articles

Thus, we can observe that the trade structure of exports between Ukraine and Russia is more advanced than the one with European Union. In addition, the competitiveness of both of these markets in Ukraine is very low, each having its specifications. The strength of Russia is precisely the position as the main exporter of minerals or oil and gas, which account a significant share in the country's GDP, but we also have to mention the exports of high technology equipment that Ukraine provided for many other countries. On the other hand, the European Union, by DCFTA, can share with Ukraine its main trade values, namely the high degree of technology and modernization. Amid trade links between Ukraine and Russia, especially on export line, these values can also be shared with Russia. In addition, taking into account the competitive advantages that Russia owns on the Ukrainian market, the dynamic structure of trade between these two will not take influences from the EU market.

Implementation of the agreement will benefit the modernization and reform trade environment, which will also create a favourable environment for foreign direct investment (Havlik, 2013). The orientation of the investors to eastern European markets is visible, and it is explained by high productive capacity, high educational level and low level of wages compared with those in the west. The most important volume of foreign investments in Ukraine have their source in the European Union, namely Cyprus (most important investor), Germany, Netherlands, Austria and United Kingdom. However, in 2015 their volume was significantly decreased compared to 2014 and 2013, especially the volume of investments from Cyprus, but even so, their share remained above 50% of total volume. FDI volume decrease corresponds to a combination of factors such as political turmoil, the Russian-Ukrainian conflict, followed by the annexation of Crimea by Russia, and the degradation of country risk (S&P: CCC+ (Stable) to CCC-(Negative), Moody s: Caaa1 to Caaa2 (Negative)).

**Figure 5 - Foreign direct investment (equity capital) from EU countries to Ukraine**

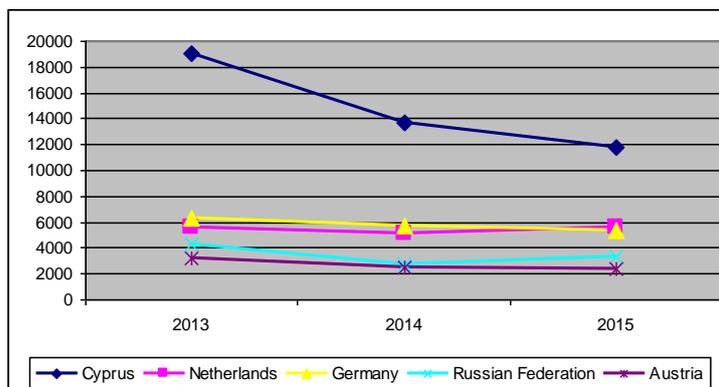


Source: State Statistics Service of Ukraine, own processing

The subject of direct investment in Ukraine founds Russia in 4th place among the most important investors, on average two-thirds less than the principal investor, Cyprus. The signing of the DCFTA set in motion the expected effects, such as a constant maintenance, but with a potential upward trend in investment volumes. For Russia, the volume of investments in Ukraine increased in 2015, which is explained by the improved perceptions of Russian investors on the potential benefits of developing trade relations with the EU.

**Figure 6 - Direct foreign investment (equity capital) from countries of the world to Ukraine economy**

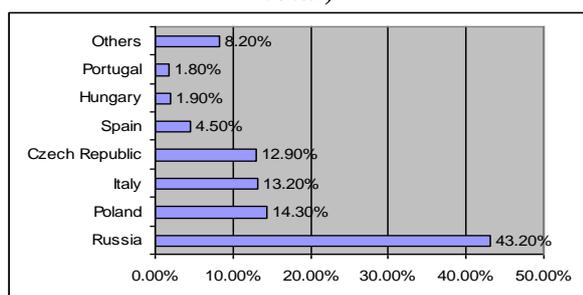
Volume of direct investment (% of the total)	2013	2014	2015
Cyprus	32,7	29,9	27,1
Netherlands	9,6	11,1	12,9
Germany	10,8	12,5	12,5
<b>Russian Federation</b>	<b>7,4</b>	<b>5,9</b>	<b>7,8</b>
Austria	5,6	5,5	5,5
United Kingdom	4,7	4,7	4,3



Source: State Statistics Service of Ukraine, own processing

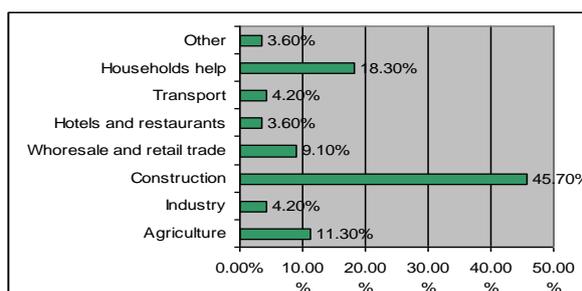
Ukraine could offer to Russia's market important European investment opportunities due to the differences in labour costs that are positioned to half of that in Russia (Astrov, 2013). The subject of migration brings to the fore an issue as important, namely the ability of the EU and Russian markets to integrate immigrants into the labour market. Tomáš Ducháč, Wadim Strielkowski and Anna Matušková (2015) talk about migration in an geographically point of view, since the flow of population in eastern Ukraine has sought to integrate into the EU labour market and, on the other hand, the western population has chosen the integration on Russian labour market.

**Figure 7 - Main destination countries of the Ukrainian labour migrants (% from total)**



Source: International Labour Organization, own processing

**Figure 8 - Main employment areas of Ukrainian labour migrants (% from total)**



Almost half of the Ukrainian migrant population is attributed to Russia, fact explained by the traditional ties, ethnic, religious, geographic, but also because of their economic history and ideological link. On the other hand, the EU labour market is a target for Ukrainian population, mainly due to high salary levels, and the main countries concerned are Poland, Italy and Czech Republic.

Also, males predominate the volume of migration, and the most popular sectors are construction( 45,7%), households help( 18,3%), agriculture( 11,3%).

In the context DCFTA makes no reference to this important piece of the manufacturing sector of Ukraine. However, in the short term, it is expected an increase by 0.8 million migrants to the EU (Ducháč, *et al.*, 2015). However, due to the volume distribution within the 28 EU countries this has no effect on long-term migration or on the destination states of the migration flows.

## **Conclusions**

Carrying out the analysis on the dual relationships that Ukraine lead with Russia and EU, brings forward the importance that these two attributes to Ukrainian market, but also that the European and Russian partners have the same degree of interest for Ukraine. By assuming the DCFTA agreement, Ukraine aims to restructure the commercial sector and explore new markets, different from the Russian characteristics.

The analysis shows that the choice made comes in the wake of the benefits that Ukraine could have, namely the openness to a more developed market with high level of competitiveness and quality, the increase of the FDI volume and the import of know- how and advanced technologies. These benefits can be transferred to Russia through trade and investments that holds with Ukraine. On the other hand, the refreshment of the relations with Russia would not bring additional benefits to those that Ukraine already enjoy due to CIS agreement. In addition, although commercial ties between Ukraine and Russia declined since 2012, Russia remains Ukraine's long race partner, even after the implementation of the DCFTA. In this account, Russia has competitive advantages: the economic history that binds her with Ukraine, the position of largest exporter of natural gas for the EU and thus Ukraine and the main importer of products with a high level of technology from Ukraine. The commercial structure analysis also indicates that the trade flows to these two areas of interest significantly differs, both imports and exports.

The traditional nature of the Russian-Ukrainian bond also reaches the subject of human capital, elemental for economic development of the country. Russia continues to be the main destination for Ukrainian workers, especially in areas with high levels of technology, but also construction and agriculture.

Due to political implications and conflict that led to the invasion of Ukrainian territory and the annexation of Crimea, simultaneous events with the negotiations of the DCFTA implementation, Russia was penalized with a series of sanctions by EU and Ukraine that have destabilized the Russian

economy by reducing the exchange rate and oil prices. Our analysis argue, therefore, that the implementation of the DCFTA does not have the potential to cause instability in trade relations between Ukraine and Russia, and that, precisely, the hostile actions of Russia against the DCFTA has jeopardized her position on economic actors arena

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## POLITICAL PROCESS DRIVERS OF CORRUPTION IN EASTERN EUROPE

Ada-Iuliana POPESCU\*

**Abstract:** *Corruption stands as one of the many obstacles to the political and economic security of the Eastern European region. Thus, despite the political and economic instability in the region, Eastern European countries, in and outside of the European Union need to fight corruption collectively and individually. The task is difficult, but hope is justified because the causes of corruption in this part of the region are similar and anti-corruption expertise is available. We believe that a deeper analysis of corruption's drivers can produce a better articulated and more efficient anti-corruption strategy. This strategy will create an anti-corruption infrastructure that will strengthen the Eastern European Partnership. As a prelude to the deeper analysis that we believe must be a part of this strategy, this paper identifies the main drivers of corruption in the Eastern European Partnership countries and explains why addressing these drivers will strengthen the Eastern European Partnership.*

**Keywords:** corruption; corrupt practices; anti-corruption initiatives; corruption drivers

**JEL Classification:** D73; H83; K42

### Introduction

Corruption is widely acknowledged as one of the greatest threats to social, economic, and political development and security worldwide. While its micro and macro consequences vary depending on its nature and extent, corruption invariably weakens governmental credibility, distorts governmental decision making, and exacts a toll on social cohesion and economic development. And, invariably, the poor suffer the most.

As corruption's consequences have become better understood and recognized, the fight against corruption has become increasingly transnational and international. Indeed, cross-border cooperation is now regarded as essential to fighting corruption. Just as the ill-gotten gains from corruption move in the global economy, so do its consequences. An undeniable threat to the rule of law domestically, corruption is likewise a threat to the international political and economic order. Afghanistan is but one example of a nation where corruption has helped create a hospitable environment for terrorism (Transparency International, 2016).

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Europe has never been sheltered from corruption. On the contrary, certain European nations enjoy an unenviable reputation for corruption (European Commission, 2014). Some of these nations are European Union members, and thus their corruption affects the European Union as a whole. Corruption in Eastern and South Eastern European countries has internal consequences deeper than those experienced by the European Union as a whole. These consequences are especially visible during political and economic turmoil that generates destabilizing, even catastrophic effects - consider Greece and Ukraine. Illegal behaviour such as bribery, conflicts of interest, traffic of influence, defalcation and the like is common in Eastern European countries. The patterns of corruption in this part of the world are similar for most nations within this region since the drivers of corruption are similar as well. We believe that the Eastern European states have to make extra efforts to tackle corruption due to their Communist heritage, which embedded corruption in their respective national political cultures.

International organizations have vigorously fought corruption. Some, such as the Council of Europe, the Organization of Security and Cooperation in Europe (OSCE), the Organization for Economic Co-operation and Development (OECD), the International Institute for Democracy and Electoral Assistance (IDEA) and Transparency International (TI), have joined forces in providing information on the progress of European countries' efforts against corruption.

For more than a decade, the Eastern European Partnership initiative has been trying to bring European Union expertise and support to the Eastern European countries of Armenia, Azerbaijan, Georgia, Moldova and Ukraine. The Partnership's 2015 anti-corruption assessment revealed that corruption is still an everyday reality in those countries. This assessment brought to the fore another reality: the fight against corruption is difficult and discouraging due to the complexity of its drivers, which are many, endemic and systemic, especially in Eastern European countries.

Periodically, governments, scholars, NGOs and others assess quantitatively corruption. These assessments aim to identify corruption's causes and the links and interactions among them, to quantify their effects at various social levels and, ultimately, to create the right tools to fight the corruption at its sources.

### **Political Process Drivers of Corruption and Their Effects**

Research on corruption's causes has proliferated in recent years. Scholars have tried to explain the particular links between corruption and economic development, political culture, public policy, history and culture. In this section, we are going to highlight some of this theoretical and empirical

work by focussing on the political process drivers of corruption that are spawning corruption in Eastern European Partnership countries. By highlighting this work, we hope that more and deeper analysis will be forthcoming by those who are committed to understanding and solving why political process corruption persists.

### *Democracy, Political System and Law*

Most Europeans perceive politicians as corrupt. The Eurobarometer reports that only one in five Europeans (22%) considers political party financing to be sufficiently transparent and supervised. Only one in twenty 'totally' agree that it is (5%) (Eurobarometer, 2014).

Political party members in Eastern European countries, as elsewhere in the world, align their behaviour according to the local economic, social, political and cultural realities. Because these realities transcend national boundaries, politicians' corrupt behaviour in one country commonly mirrors or closely corresponds with their counterparts' behaviour in another country. For example, the political party or parties in power often take control over public institutions and their activities, giving them a monopoly over the distribution and management of public resources. Also, vote-buying is a common practice during electoral campaigns. As a result, national laws on political party funding intended to defeat or minimize corruption share some common features, such as regulating private funding, increasing public funding, setting spending limits, and requiring the disclosure of the sources of party funding (OECD, 2011). The goal is to increase transparency and fair political competition between parties and, through both measures, to reduce opportunities for corruption.

The political will to fight corruption is crucial for the success of these and other anti-corruption measures. Given the popular condemnation of corruption, strengthening democracy and democratic values is a tool for fighting corruption. Thus, a free press and a strong civil society, when coupled with an open, transparent electoral process, can create conditions where corruption is less likely to thrive.

Democracy depends on political pluralism. In turn, political parties and alliances depend on funding to win elections. This dependency, however, creates opportunities for a variety of corrupt activities ranging from converting campaign funds to private use to rewarding donors by improperly diverting public benefits to them through different schemes. The end results of this circle are weakened democracies.

In 2003, the Council of Europe recommended extensive prescriptions for the legal framework in which political parties operate in European countries. These recommendations seek to encourage European countries to adopt common anti-corruption rules governing political party and electoral campaign funding. These rules would be based on general principles for party and campaign donations, tax deductions and related record keeping; donation limits and disclosure; electoral campaign expenditures, limits, and record keeping; and enforcement and sanctions for infringing the rules embodying these principles (Council of Europe, 2003).

Also at play in the political processes in corrupt governments is the reality that the size of a country's political apparatus is directly proportional with the number of corrupt officials in that apparatus. While enforcing stringent, unambiguous ethical codes can induce these officials to behave ethically or remove them from the government, recruiting public officials who have internalized the norms expressed in these ethical codes is essential. Attracting ethical individuals to long-term public service careers and keeping a tight internal discipline on all public officers reduces corruption in public sector (Treisman, 1998).

This is not to say that scholars and policymakers agree about the importance of stability in the political office. They do not agree. While some say that a short political mandate will encourage politicians to make money fast and by all means (Treisman, 1998), others have suggested that longer terms will enable politicians to create corruption networks and channels to facilitate their unlawful dealings (Olson, 1982).

Despite these opposing opinions, we believe that political stability and democracy are key factors in discouraging corruption. A democratic system offers transparency, stability and accountability. For example, Ukraine's lack of political stability and democracy has led to a high level of corruption, including at the presidential and governmental level. Transparency International's Corruption Perception Index for Ukraine is 27, on a scale of 0 to 100, where 0 is the value for most corrupt perceived country (TI, 2015).

Decentralization and the internal structure of the state can be detrimental to anti-corruption fight because the absence of centralized authority and internal discipline makes it easier it is for a politician to influence the system (Shleifer and Vishny, 1993). Thus, the fragmentation of authority can be seen as a driver of corruption. However, this theory's opponents argue that decentralization ensures competition between local authorities and disables central structures from hiding wrongdoings (Weingast, 1995). At the same time, local authorities' activities can be closely monitored by local police and judiciary, making it easier to detect corruption (Rose-Ackerman, 1994).

It is widely accepted today that law remains one of the most powerful tools for fighting corruption. Comprehensive prohibitions against corrupt acts and their prompt enforcement will curb the level of corruption. All five Eastern European partners have adopted anti-corruption laws. However, positive results are scarce due to the lacunas in the law or inconstant enforcement or both. This leads to different levels of corruption among European countries, including those in Eastern Europe. This is particularly true for Moldova and Ukraine where 80 per cent and 87 per cent of citizens, respectively, perceive the judiciary as corrupt or extremely corrupt (TI, 2015). In fact, the separation of powers between the judiciary and the executive is problematic in the five countries involved in the Eastern European Partnership. And prosecutions for corruption are few or dubious. For example, in Armenia only a few individuals have been prosecuted for corruption since the judiciary is under government influence. As a result, during the first half of 2013, only two people have been convicted for taking bribes (TI, 2015). In Azerbaijan, Georgia and Ukraine, some corruption prosecutions have been politically motivated, while others have targeted petty offences and government opponents. For example, in Azerbaijan, Leyla Yunus, a human rights defender and her husband have been convicted to eight and a half, respectively seven years in prison on the grounds of economic crimes and treason. Transparency International representatives are still urging Azeri authorities for their release in the absence of a fair trial, according to international standards (TI, 2015). Moldova and Georgia reflect the wide differences in implementing reforms within the region. Moldova is lagging behind in implementing the much needed judiciary reforms, while Georgia is making progress toward an impartial judiciary and now prosecutes government officials more frequently. For example, in 2014, Georgian Parliament has voted for the expansion of the local government officials' list that need to file asset declarations (TI, 2015).

All of the Partnership countries face the need to meaningfully change their anti-corruption laws and law enforcement. However, this is going to be difficult because the political leadership in all five countries is not fully accountable to Parliament, the judiciary, civil society or the media. So far, "Moldova, Georgia and, to some extent, Ukraine appear the most committed among the Eastern Partnership members to aligning their policies and laws to those of the European Union in return for political and financial support, preferential access to its markets, and visa-free travel" (TI, 2015).

### *Economic Development*

Corruption affects all economies. The belief that corruption does not exist in countries with a strong, market-oriented economy was slow to be discredited. This is probably a reason why the drivers of corruption in European countries with high-performing economies have never been analysed. However, during the last fifteen years the corruption scandals in Western Europe have revealed that the corruption found in developing and transitioning economies is also found in mature, high-performing economies. Illegal party funding in Germany, corporate bribing of public officials in Italy, France and Austria in return for business advantages are just a few examples. In fact, no country is sheltered from corruption no matter the extent of its economic development. Corruption's prevalence within and among nations is relative, and even Europe's developed countries have not eradicated it (MacDonald and Majeed, 2012). Recent studies are trying to understand corruption's variability and, ultimately, its persistence by analysing the correlation between economic development and corruption.

The general consensus is that economic development is essential in reducing corruption. A high level of economic development discourages the supply and demand for corruption. "The opportunity cost of punishment for a wealthy individual is much higher and also acts as a deterrent. Citizens of wealthy nations do not tolerate corruption behaviour due to the awareness of their rights and they react forcefully to corruption-prone activities" (MacDonald and Majeed, 2012, p.15).

On the other hand, developing countries' economies offer their citizens low levels of income. Thus, their citizens are more prone to engage in corrupt activities to supplement their financial gains and satisfy their needs. As a consequence, the supply and demand for corruption grow (Serra, 2006). As a solution to this problem, scholars and economists have shown that financial reforms significantly control the incidence of corruption and also economic freedom as well.

The EU Eastern European Partners' economies are at different developmental stages. The United Nation (UN) Human Development Index classifies these countries as having a high standard of health, education and living, except for Moldova, which is ranked as medium (United Nations, 2013). Among the five countries, Georgia is the only one that has kept corruption under control, an outcome attributed to its having stronger governance than the other Partners despite its modest economy. On the other hand, Azerbaijan, in spite its superior GDP per capita compared to the other four countries because of its considerable oil revenues, has weak governance that makes corruption thrive, especially because politicians are tightly linked with the business sector. Thus, big companies often bribe to secure a business advantage on the Azeri market or to secure oil extraction concession

contracts, while the small business sector is suffering the effects of corruption (TI, 2015). The Organization for Economic Co-operation and Development (OECD) has repeatedly urged Eastern European countries, including the five Eastern European Partners, to criminalize the bribing of a foreign public official using the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (“OECD Convention”) as a legislative model.

An open market supports economic development and consequently reduces corruption. However, some believe that economic freedom can be detrimental since “rapid economic transactions, labour mobility, uniform trade policies, and the widespread availability of information are among the potential sources that shift cultural and political norms across borders within the (EU) member states. Since corruption by its nature is contagious, it is highly likely that it will spread across European countries that are members of the EU” (MacDonald and Majeed, 2012, p. 6).

From this perspective, the Eastern European Partnership can also be seen as roadblock for corruption in Europe. By helping its Eastern European Partners, the European Union also helps itself by preventing further spreading of corruption on the continent.

### ***History and Culture***

Every country has a unique history and culture. Linking any country’s history and culture to corruption is difficult because of the vast quantity of data required. Nonetheless, a country’s history and culture bears on its level of corruption. And, while customs, traditions and practices vary widely in Europe, common historical influences exist. Eastern European countries have been greatly influenced by the Ottomans and the Russians.

Scholars have argued and demonstrated that customs can shape a country’s institutions and human behaviour. Over centuries, practices and norms foster attitudes. The same is true for corruption. Corruption can become socially and culturally embedded in a nation and thus seen as normal by community members while outsiders perceive and consider them as wrong. In short, being submersed in a culture that foster corruption, in time one becomes accustomed to it and illegal behaviour is seen as acceptable. This type of adaptation has been explained by scholars and practitioners through the propensity to morally disengage (Moore *et al.*, 2011) or by using the emotion-evoked collective corruption model (Smith-Crowe and Warren, 2014). The first explains how individuals’ propensity to morally disengage generates predictable unethical behaviour inside of an organisation. The second is centred on individual behaviour within a corrupt organization.

Individuals who do not resonate with the corruptive culture of their organizations are influenced by their leaders to go along with the wrongdoing. Being criticised or even sanctioned for doing the right thing is demoralising for some individuals. Thus, those individuals who feel guilt, shame, or embarrassment when criticised for acting legally “are likely to conclude that they have in fact done wrong and they will be likely to participate in corrupt practices in the future. Those who reject the sanction (experience anger or contempt) are likely to conclude that they have not done anything wrong. These individuals are unlikely to participate in corrupt practices in the future” (Smith-Crowe and Warren, 2014, p.19). Thus, corruption can spread via social learning and it is contagious. These forces are at play in organizations in the five Eastern European Partners as well. This happens because the “old school”, ex-Soviet oligarchs are still in power and as a group or individually, they are imposing a corrupt behaviour. Too powerful and organised in their crimes, they cannot be overthrown easily. Thus, the new comers on political arena have two choices: to adhere to the corrupt groups and to tolerate corruption or to fight against them and to face harassment, intimidation and persecution. In this respect, the situation is similar in the Eastern Partnership countries. Powerful individuals have dominance over political groups. For example, in Armenia, the president dominates the ruling party’s politicians and the executive. Also, in Belarus, President Alexander Lukashenko maintains a strong hold on power since 1994, imposing an authoritarian political system that weakens democracy and the rule of law.

Also, at group level, anti-corruption behaviour is mostly absent. Politicians are helping each other, colluding to stay in power and to maintain their social and political influence, and to secure financial gains. For example, in Azerbaijan, government reports are superficially analysed and contested by the parliament; in Georgia and Ukraine ministers are often failing to respond to parliamentary questions and parliamentary investigation committees are ineffective or absent (TI, 2015).

Currently, however, civil society and mass-media play a fundamental role in discouraging these forces. A strong and active civil society puts pressure on governments to pursue anti-corruption reforms and to enforce anti-corruption provisions. Civil society manifests itself differently in the five Eastern European Partners because they are influenced by different social, political and economic realities. However, in all five countries civil society reaction against the abuse of power and corruption is weak due to the legal restrictions imposed by their respective governments. This can be seen in Armenia and Azerbaijan, where civil society organisations, NGOs and their leaders’ activities are closely monitored and sometimes even repressed. Human rights activists and media representatives are often victims of violence and intimidation in Azerbaijan. Also, in Moldova civil

society organisations are sometimes servile to government representatives or politicians, altering the very essence of civil society organisations' role in a democracy.

At the same time, civil society is more active in Ukraine and Georgia where activists are advocating for governmental accountability, transparency and sustainable reforms. For example, in 2014, Ukrainian civil society organisations generated enough pressure to force the parliament to adopt the Law on the Prevention of Corruption. Entering into force in 2015, these provisions brought a much needed legal and infrastructural reform. The newly created, independent Agency for the Prevention of Corruption is now charged with overseeing the anti-corruption law enforcement in Ukraine.

Likewise, during 2013 presidential elections in Georgia, civil society representatives have actively monitored the voting process, preventing to some extent politicians' and public office employees' from their usual abuse of power and thus enforcing fairness, transparency and democracy (TI, 2015).

Despite the political hurdles and human rights infringements, civil society movements are ascending. People in these five countries are reacting to corruption, unwilling to live anymore in a society that fosters corruption and thereby stifles democracy and economic development. The "old ways" do not match the aspirations of younger generations anymore. However, change takes resources and time.

## **Conclusions**

Corruption is one of the greatest obstacles against the sustainable development of the Eastern European region. Its systemic and endemic nature makes fighting it difficult. The lack of democracy and political stability, a problematic economic development, a history and culture that favour illegal behaviour are major drivers of corruption in Eastern Europe. However, strategic thinking, vigorous law enforcement and cooperation in the region could lead to meaningful results by annihilating some of the determinants of corruption in this region.

The Eastern European Partnership is one of the European Union strategic initiatives meant to help Armenia, Azerbaijan, Georgia, Moldova and Ukraine in their endeavour to reach the EU development standards. Indirectly, the partnership is an anti-corruption tool as well. As in any two-sided arrangement, both sides have obligations. Thus, under the European Union's close supervision, the five Eastern European partners must improve their anti-corruption legal framework and their

practices, strengthen the independence of executive and of the judiciary, support civil society efforts to fight corruption. In turn, the European Union must provide constant expertise to its partners, prioritising short and long-term anti-corruption goals. While more and deeper analysis is necessary, as sufficient roadmap is available to prompt and guide that analysis.

The recent European turmoil generated by the migrant crisis has proved ones more that, without close cooperation and synchronised actions, European nations' security and welfare are under threat. Under these circumstances, the Eastern European Partnership has the change to prove its importance and efficiency.

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## THE FUTURE OF THE EASTERN PARTNERSHIP: “BUILDING A SHARED EUROPEAN HOME”

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**Abstract:** *The year 2014 became a turning point in the history of the EU Eastern Partnership (EaP), marked by the signing of the Association Agreements with three EaP states and a conflict in Ukraine. In view of the above, current research focuses on assessing the feasibility of scenarios of the EaP future, discussed in scholarship, based on the assessment of the EU’s foreign policy successes and challenges in Eastern Neighbourhood. EU’s internal issues, re-emerging geo-strategic threats and domestic challenges in the EaP states are analyzed. The considered scenarios include the EU’s acceptance of the status quo in the region, taking a stronger stance on the integration of Ukraine, Moldova and Georgia, as well as building “a shared European home” by promoting a rapprochement with Russia. The single scenario for the EU’s policy in the EaP states is suggested, and the reason why the EU will try to “build a shared European home” is explained.*

**Keywords:** Eastern Partnership; Ukrainian crisis; Association Agreement; geostrategic challenges

### Introduction

The EU’s Eastern Partnership (EaP) was introduced in 2009 in order to bring six post-Soviet states - Armenia, Georgia, Azerbaijan, Moldova, Belarus and Ukraine - closer to the EU in political, economic and cultural terms. The major peculiarity of the EaP is that it combines cooperation through the multilateral platforms<sup>1</sup> and enhanced bilateral relations between the EU and Eastern Neighbours. The initially envisaged cornerstone of the EaP bilateral track was constituted by the Association Agreements (AAs) between the EU and EaP states, including Deep and Comprehensive Free Trade Areas (DCFTAs)<sup>2</sup>. Other tangible benefits for the Eastern Neighbours were a perspective of short-term visa-free travels to the Schengen Area and the membership in the Energy Community, launched in 2006 for the Western Balkan states to get them incorporated into the EU gas and electricity markets.

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<sup>1</sup> The platforms are “Democracy, good governance and stability”, “Economic integration and convergence with EU policies”, “Energy Security” and “People-to-people contacts”.

<sup>2</sup> The AAs (including DCFTA) were signed by the EU with Ukraine, Georgia and Moldova in 2014. Joining the Eurasian Economic Union, Belarus and Armenia refused from entering AAs with the EU. Azerbaijan also refused from the AA scheme, suggested by the EU.

To support the implementation of the above goals, the EU used a number of geographic and thematic instruments<sup>3</sup>.

The year 2014 was a turning point in the history of the Eastern Partnership initiative, marked by the EU's signing AAs with Ukraine, Georgia and the Republic of Moldova, as well as the Russian annexation of Crimea and its following military offensive in Eastern Ukraine. These developments revealed a number of challenges, concerned with the further implementation of the EaP initiative, and called for a conceptual change in the EU's approach towards shaping its relations with its Eastern Neighbours. As it stems from the overview of the post-2014 scholarly elaborations related to the future of the EaP, possible paths for such change can be identified as follows:

- *Accepting the status quo and not insisting on framework policy changes* (Friedrich Ebert Stiftung Scenario Group EU+East 2030, 2014, p.30; Hug, 2015, pp.6-12);
- *Increasing the EU support for economic stabilization and structural transformation in the EaP states (along with the policy's diversification and possible granting of candidate status to the EaP states)* (Hug, 2015, pp.6-12; Center for the EU Enlargement Studies, 2015, pp.13-14);
- *Building a "shared European home" by intensifying the EU and EaP countries cooperation with Russia and the Eurasian Union (EEU)* (Korosteleva, 2015; House of Lords, 2015, p.101; Friedrich Ebert Stiftung, 2014, p.30).

Determining the avenue the EU is most likely to choose requires a systemic analysis of the challenges, currently faced by the EU in the region, and elaborating on the scenarios of its actions. The feasibility of the scenarios will be assessed, based on the trajectories of the EU behavior as an international actor and the steps it has taken until now in terms of building up the relations with the EaP states.

### **1. The Eastern Partnership: moderate successes and multiplying challenges**

Shortly since the start of the implementation of the EaP programme, it has started to be broadly criticized by scholars and analysts. A year after the EaP was launched, in her contribution, aiming to assess the EaP impacts, Depo (2010) was asking whether the initiative was "a success or a failure for the diversified ENP". Not providing a precise answer to this question, Depo (2010) illustrated several major concerns, which prevented her from viewing the EaP as an EU success, such as the "Eastern

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<sup>3</sup> The EU funding instruments include the European Neighborhood Instrument (ENI), European Instrument for Democracy and Human Rights (EIDHR), EU Instrument for Stability etc.

Partners’ unfulfilled expectation of the EU membership perspective” and “frozen conflicts” in the EaP states. Similarly, Boonstra and Shapovalova (2010, pp. 10-13) pointed out that the EaP did not overcome the weakness of the European Neighborhood Policy in transforming the EU’s Eastern Neighbours. The authors substantiated the above statement by referring to the distant nature and “vagueness” of the EU offers to EaP states, the EU’s inability to overcome the dilemma between “joint ownership” and the conditionality principles, as well as the limited EU leverage in specific partner states.

In 2013 the EU External Action Service (EEAS) conducted a critical assessment of the EaP impact in the region and singled out four major domains, whereby the project was successful. Firstly the EaP was found to have elevated the bilateral relations between the EU and Eastern Partners in political, economic and cultural dimensions. Secondly, the EaP included a multilateral component, uniting the EU, its Member States and the Eastern Neighbours around a range of crucial issues. Thirdly, the EU, its Member States and the Eastern Partners strengthened sector cooperation. Finally, the EaP architecture allowed involving a range of actors beyond the government into the cooperation with the EU (EEAS, 2013).

At the same time, 2013 was the year, when the first contributions, calling for “a start of a real partnership” (Wisniewski, 2013) and “smart geostrategy” (Youngs and Pishchikova, 2013) emerged in light of the upcoming EaP Summit in Vilnius, where a range of AAs were to be signed. Emphasizing that the EaP could continue serving as a framework for the EU relations with Eastern Neighbours, P.D.Wisniewski (2013, pp.7-10) viewed the inconsistencies in the way the EU differentiated between the Partners and inadequate financing as major deficiencies to be rethought. Furthermore, the author pointed out to the fact that Russia was using hard and soft power to influence the EU and the Eastern Partners to weaken the initiative (Wisniewski, 2013, p.1). Youngs and Pishchikova (2013, p. 3) concentrated on the EU-Russia rivalry over the region, mentioning trade sanctions, energy supplies interruptions and power struggles in regions among the means Russia was using to damage the EaP. Assessing the EaP prospects for the future before the Vilnius Summit, Korosteleva (2012), P.D.Wisniewski (2013) and Youngs and Pishchikova (2013) underlined the need for a more ambitious partnership, focusing on genuine political and economic transformation in the EaP states, rather than the transfer of *acquis*. Evidently, short before the 2013-2014 events in Ukraine, the failures of the EaP and required policy changes were already addressed far more frequently than the benefits, brought about by the initiative.

Subsequently, the ongoing Ukrainian crisis and related geostrategic threats gave a new impetus to the debate regarding the challenges, faced by the EaP, and the ways out of emerging a new ‘Cold

War”<sup>4</sup>. Similar to the state of 2013, the EaP achievements drew the insignificant attention of researchers. Gromadzki (2015, pp. 12-13) addresses the signing of the AAs with Ukraine, Moldova and Georgia as a “big success”, along with the Partners’ steps forward in the approximation of legislation with the EU’s *acquis communautaire*. Granting Moldova a visa-free regime is viewed as a factor, capable of breaking a stereotype of the unattainability of the ‘free travel’ incentive. However, the multiplicity and complexity of the EaP current challenges, led to the EaP, being addressed as “a failed birth of better tomorrow” that is also to blame for the initiation of the Ukrainian crisis (Mearsheimer, 2014).

In light of the issues clearly outnumbering and (most possibly)<sup>5</sup> outweighing achievements, it is suggested to acquire an insight into the nature, scope and mutual influence of the challenges, posed to the EU by the EaP. For the purposes of clarity, it is suggested to divide the considered issues into three major groups, such as:

- The EU internal challenges;
- Geostrategic threats;
- Domestic challenges in Eastern Neighbours.

### ***1.1. The EU internal challenges***

Historically, the foreign policy and security domains were most challenging for the EU to integrate due to the Member States’ disposition to protecting their sovereignty in these policy spheres. Despite the fact that the Lisbon Treaty provided for the strengthening of the Union’s role in the international arena, the EU policy towards third states is still highly dependent on Member States’ positions and foreign policies. The differences in Member States’ attitudes to the EaP became especially apparent in light of Ukrainian crisis.

While Sweden and Poland remain most vocal supporters of the EaP in general and the EU intensified efforts in the field of the European integration of Ukraine in particular, the positions of other EU states are far from unified. Despite Germany’s evident leadership with regard to the crisis in Ukraine, German foreign policy thinking (especially the one of the centre-left SPD) is still concerned with Cold war *Ostpolitik*, favouring engagement with Russia (Hug, 2015, p.11). Both

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<sup>4</sup> Causing the stand-off between the West and East, Ukrainian crisis was already repeatedly addressed as an impetus for the emergence of new “Cold War”. See: Trenin, D. (2014), *The Ukraine Crisis and the resumption of Great-Power rivalry*.

<sup>5</sup> The word “possibly” is underlined, because the full assessment of the EaP’s impact can be conducted only following the end of the initiative’s implementation.

Hungary and Austria, enjoying long-standing political and economic links with Russia, repeatedly pushed the EU for softening its stance as regards the response to the crisis in Ukraine via the sanctions’ policy (Sannikov, 2014). Evident pro-Russian positions were also expressed by strong national political forces in the Member States, such as the National Front in France, Greece’s far-right Golden Dawn and the Lega Nord in Italy (Sannikov, 2014). In view of the outcomes of the most recent elections to the European Parliament<sup>6</sup>, the Eurosceptics’ opposition to strengthening the EaP initiative can be viewed as a crucial diplomatic challenge, preventing the EU from radically reframing the EaP (e.g., supplementing it with a membership incentive).

The lack of the membership incentive, entailed into the EaP project, clearly stems from the fragmentation of the EU Member States’ approaches to the cooperation between the EU and the Eastern partners. It is important to underline that particularly a non-inclusion of the enlargement incentive into the scope of the EaP has been viewed as a crucial weakness of the EaP. Such an opinion, frequently substantiated by the referrals to the experience of *Europeanization* in Central European states, was expressed in both merely conceptual contributions (Boonstra and Shapovalova, 2010) and case studies’ analyses (Dimitrova and Dragneva, 2013; Delcour, 2013). At the same time, the “enlargement-free design” is only an element of a broader debate, whereby it is argued that the EaP external incentives<sup>7</sup> are too insignificant and distant to achieve the initiative’s genuine transformative power.

While the diverging positions of the EU Member States and specific national political forces lead to the EU’s inability to introduce rapid policy changes, inter-institutional tensions may significantly hinder the dialogue between the EU, Member States and the Eastern Partners (Hug, 2015, p.7; Kostanyan, 2015, p.22). According to Kostanyan (2015), the tensions between the European Union External Action Service (EEAS) and the respective Directorates General (DGs) of the European Commission (DG External Actions, DG Neighborhood and Enlargement Negotiations) cause the responsibility overlaps and ‘grey zones’ of responsibility between agencies. The EU-Eastern Partners’ dialogues as regards the DCFTA- and Visa Liberalization-related dialogues were also admitted to have been negatively affected by the tensions between the EEAS and DGs Migration and Home Affairs and Trade respectively (Kostanyan, 2015, p.23).

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<sup>6</sup> The 2015 elections to the European Parliament (EP) were characterized by significant popularity of Eurosceptic and nationalist parties. France’s Nationalist Front, UKIP, Greece’s Golden Dawn and Italian Five Star and Lega Nord movements are currently holding more seats in the EP than before.

<sup>7</sup> On a debate about the EU conditionality model and the use of external incentives, see: Schimmelfennig, F., Sedelmeier, U. (2004), Governance by conditionality: EU rule transfer to the candidate countries of Central and Eastern Europe. *Journal of European Public Policy*, Vol. 11, No.4, pp.661-679.

To conclude, the diverging positions of the EU Member States as regards the future of the Eastern Partnership and the inter-institutional issues lead to both the *ad hoc* dialogue-related difficulties, as well as to the Union's limited power to introduce conceptual differences into the EaP design (subsequently limiting the initiative's transformative power).

### ***1.2. Geostrategic threats***

The "Revolution of Dignity" in Ukraine, the Russian annexation of Crimea and the following pro-Russian unrest in Eastern Ukraine led to significant changes in the balance of powers in both global and regional terms, bringing new concerns to the surface.

The key security concern, stemming from Russia's role in the Ukrainian crisis is that the Westphalian deal can no longer be viewed as a solid foundation for the world security (Nichols, 2014). In other words, nowadays the world community lacks efficient diplomatic, legal and economic means to stop the Great Powers from committing evident violations of the basic principles of international law<sup>8</sup>. Subsequently, it becomes possible that the EU's attempts to increase its presence in the Eastern Neighborhood may lead not only to the escalation of Ukrainian conflict (despite current fragile ceasefire), but to the emergence of threats to the security of Poland and of the Baltic states (Larrabee, Wilson&Gordon, 2015, p.viii). Moreover, Russia's annexation of Crimea led to a significant increase in Russia's maritime power and sharpened the collisions in the Black Sea region. Key geostrategic threats in this regard relate to the security of Moldova, possible toughening of the historical rivalry between Russia and Turkey, as well as Russia's increased ability to influence the events in the Western Balkans and the Middle East (Blockmanns, 2015; Larrabee *et al.*, 2015, pp.viii-ix).

Apart from the fact that the EU can no more rely on Russia's playing by the 'international law' rules in the competition over the region, a significant concern deals with the threat of Russia's reinforcing of its "hybrid war" strategy<sup>9</sup> in Ukraine and beyond. According to Kofman and Royanski (2015, p.1), the hybrid war is viewed by the West as "as a threatening precedent – even a likely model – for future conflicts on Russia's periphery". At the same time Lanoszka (2016, pp. 182-185) underlines that the former Soviet states are especially vulnerable to the application of the hybrid

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<sup>8</sup> On the analysis of Russia's violations of international law during the conflict in Ukraine, see: Zadorozhny, A. (2014), *Ukrainian 'Revolution of Dignity' and international law*, Kyiv: KIS.

<sup>9</sup> Hybrid war combines a range of conventional strategies, such as irregular combat operations, economic retaliatory measures, sponsoring of political protests and massive informational campaigns in the shadow of conventional war.

warship due to the ethnical heterogeneity of the region, existing historical complexities and insufficiently developed civil society.

Importantly, soon after Russia’s annexation of Crimea, the influential representative of the realist approach to international relations J.Mearsheimer (2014) claimed that the “United States and its European allies share most of the responsibility for the crisis” in Ukraine. Even despite the fact that the EaP has never included a membership perspective for Ukraine, its development and an offer of the Association Agreement to Ukraine is considered to have contributed to provoking Russia’s actions in Ukraine, along with NATO’s Eastern enlargement.

In view of the above security threats under the game with no rules and a fear to be blamed for further provoking Russia’s aggression in the region, the EU is not eager to aggravate an existing burden by changing its “enlargement-free” approach to Ukraine and to other Eastern Neighbours. To understand the scope and importance of the combined effects of the above challenges, it is worth referring to the fact that the crisis in Ukraine has already been viewed as a resumption of the Great Powers’ rivalry. In the modern era of tight economic links between the East and the West, regional tensions and shared global concerns imply that the new ‘Cold War’ is even more dangerous than it was in the second half of the twentieth century.

An important consequence of the resumption of the tensions between Great Powers made the “West or East” choice, initially contained in the EaP design, more apparent. This development, as well as the EU’s inability to significantly enhance the EaP incentives, may inspire the Eastern Partners to join the EEU (as Armenia and Belarus already did)<sup>10</sup>. As their choice means sacrificing the chance to enter into the AA (including the DCFTA) with the EU, the EU currently faces a challenge of reconsidering Armenia’s and Belarus’ role in the EaP in a way that will not reassert Russia’s pressure on them, further limiting the space for maneuver. Willing to pursue its own economic and political path, Azerbaijan willfully refused to proceed with the AA and DCFTA with the EU. Subsequently, a further challenge for the EU is to sustain its leverage in Azerbaijan as the EaP country through a currently developed ‘strategic partnership for modernization’.

To sum up, following the crisis in Ukraine, equated to the resumption of the Cold War-style East-West rivalry, the implementation of the EaP is associated with a number of geostrategic threats. The Union being prevented from radical steps towards the strengthening of the EaP initiative may mean further decrease the transformative power of the EaP.

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<sup>10</sup> Assessing the above development’s impact on the EaP states’ strategic choices, it is important to take into account the different levels of relationships’ evolution between the EU and EaP countries before the “Revolution of Dignity”.

### *1.3. Domestic challenges in Eastern Neighbours*

The domestic context of the EaP states is characterized by unique challenges to be considered in terms of the EU policy towards the Eastern Neighbours. The chapter below focuses on the domestic issues in EaP countries, highlighted in the literature over the period from 2012 to 2015.

#### *Ukraine*

In light of the ongoing conflict, the situation in Ukraine remains one of the EU's crucial concerns. Despite the IMF short-term funding and the EU support packages for Ukraine's economy and political reforms, introduced in both 2014 and 2015, a range of challenges persist. A considerable difficulty, accompanying the reform of "structurally weak" Ukrainian economy, deals with the occupation and lost capacities of the country's major industrial lands (Hug, 2015, p.11). In turn, the persisting conflict, high defense expenses and the country's dependence on external financial aid led to a continuing increase of the public debt, sharp depreciation of the national currency and growing unemployment rates (EEAS, 2014). The EU and Ukraine's efforts in promoting the benefits of the EU-Ukraine DCFTA for Ukrainian exporters are considered crucial against the background of the rapid fall of Ukraine's exports to Russia.

Russia's aggression in the East of Ukraine led to a drastically deteriorating human rights situation in Crimea, Sevastopol and Eastern Ukraine (especially, with regard to the freedom of expression, assembly and the media). The most challenging fields of political transformation in Ukraine include the constitutional review process (that is to enable the reforms of decentralization and judiciary), anti-corruption and good governance, as well as public management (EEAS, 2014, p.3).

According to the opinion of G. Soros (2015), further supported by A. Hug (2015, p.12), the scale of international aid, provided by Ukraine, does not respond to the challenge of the country's post-crisis recovery. While it is being proposed to deploy the unused resources of the European Financial Stability Facility to increase the amount of aid to Ukraine, the structuring and ensuring the effectiveness of such aid remains a difficulty.

### *Georgia*

While the GDP in Georgia demonstrated a steady growth over the period from 2012 to 2014, inflationary pressures and the high unemployment rate (at around 14.1%) are the challenges, undoubtedly requiring new views and solutions (EEAS, 2014, p.10). The prevalence of non-formalized government-business coordination mechanisms and the “careless legislative approximation process” are perceived as major obstacles on the path towards the successful implementation of the EU-Georgia DCFTA (Visegrad Fund and GISS, 2014, p.15).

The fight against corruption and ensuring the independence of the judiciary remain the most problematic fields of the EU-Georgia cooperation. Generally, the political environment in Georgia is currently assessed as being “more volatile” than before following the resignation of the most internationally-known members of the Georgian “Dream Coalition” and the narrowed space for dialogue between the civil society activists and government (Hug, 2015, p.18).

A major concern is posed by the increased separation between Georgia and the breakaway territories of Abkhazia and South Ossetia, accompanied by Russia’s signing of the “Alliance and Strategic Partnership” agreements with these territories. While the EU remains committed to the territorial integrity of Georgia and discussed the issues of Georgia’s breakaway territories with the Russian Federation in bilateral terms in 2014, no significant progress was made in this regard.

Cultural concerns, such as “the rise of pressure against European liberal values”, are also seen as a potential obstacle to the further deepening of the EU-Georgia relations.

### *The Republic of Moldova*

Similar to the other countries in the region, Moldova faces a challenging economic situation due to embargoes, posed on goods of Moldovan origin, by the Russian Federation. While until February 2015 the Moldovan leu demonstrated a significant fall, the National Bank of Moldova was forced to make large investments to stabilize the national currency and calm down the market. The Three of Moldova’s most important commercial banks’ inability to repay emergency loans, priorly provided to them by the government to avoid bankruptcy, led to a large financial hole in the banking sector (amount to 15 percent of the GDP) and decreased Moldova’s attractiveness for investors (Secieru and Sobjak, 2015, p.3).

Due to the marginalization and low credibility of some of its members, the installation of the new minority government in Moldova led to the deterioration of Moldova’s relations with some of

the EU Member States, such as Germany. Moreover, the new government is evidently less active in pursuing the European integration path than the previous one, and the debate regarding Moldova's possible submission of the EU membership application<sup>11</sup> seems to be a thing of the past. Persistent and high-level corruption and the lack of transparent design for party and campaign financing remain the least successful reform fields in Moldova. The lack of progress in the field of democratic reforms led to addressing them as merely "pro forma" by analysts (Secieru and Sobjak, 2015, pp.2-3)

Limited progress has been made by now by Moldova and the EU with regard to the resolution of the Transnistrian conflict. Being supported by Russia, Transnistria continues opposing constructive negotiations on its status and security.

### *Armenia*

Armenia's decision to stop the preparation for the conclusion of the AA and DCFTA with the EU in 2013 led to an increase of previously strong Russian leverage and the EU's limited opportunities to facilitate further dialogue with Armenia. While the EU and Armenia successfully cooperate in terms of the EU-Armenia Visa Facilitation and Readmission Agreement of 2014, it is claimed that Armenia's total progress in implementing the European Neighborhood Action Plan is limited (Hug, 2015, p.18).

Armenia also continues to suffer from an unresolved border conflict with Azerbaijan over the self-declared Nagorno-Karabakh Republic, whereby ensuring security remains a crucial concern.

Further shifts in Armenia's domestic positions regarding European integration can be possible only in case of Armenia's decreasing energy and security dependence on Russia and enhanced political will of the government.

### *Belarus*

Similar to Armenia, Belarus sacrificed an opportunity to conclude the AA and DCFTA with the EU for the sake of further Eurasian integration. That is why, the development of new policy tools is required to preserve existing EU leverage in Belarus and provide new incentives for further evolution of the EU-Belarus relations.

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<sup>11</sup> In 2014 the president of Moldova announced that the Republic would submit the application for the EU membership in 2015 in order to boost the ongoing integration process. Already following the change of the government in 2015, it was claimed that

Until 2015 the crucial source of tension in the EU-Belarus relations was manifested by the presence of political prisoners in Belarus. Despite the prisoners’ release in summer 2015, democratization and the observance of human rights in Belarus can still be addressed as important concerns in the relations between the EU and this country.

### *Azerbaijan*

While Azerbaijan is the most prosperous among the EaP countries due to the availability of significant oil and gas reserves, its human rights and governance standards can be estimated as very low (Hug, 2015, p.13). Apart from the lack of civil society’s capacities and an ability to influence the governmental policies, negative attitudes to foreign donors remain a crucial obstacle on the path towards the improvement of human rights- and the democratic governance-related situation.

Unlike other EaP countries, Azerbaijan is not particularly interested in the EU budget support and strongly promotes its security and economic interests in its relations with the EU. Following such a strategy and preserving its elites’ interests (Alieva, 2014), Azerbaijan refused from furthering its relations with the EU within the framework of the EU- Azerbaijan AA and DCFTA. Instead, the Government of Azerbaijan proposed a new document entitled a “Strategic Modernization Partnership”. As the EU refused to enter into such a partnership with Azerbaijan, insisting on the signing of the EU-Azerbaijan AA, the Partnership and Cooperation Agreement of 1999 and the EU Neighborhood Instrument remains the framework for the EU- Azerbaijan relations.

Apart from the need to elaborate on a modern workable framework for the EU- Azerbaijan cooperation, an important challenge is concerned with helping Azerbaijan and Armenia achieve consensus as regards the Nagorno-Karabakh Republic. A formal upgrade of the relations with Azerbaijan is also required in light of the deteriorating European values in this country.

### *Summary of the challenges, faced by the EaP*

Initially, the conceptual basis of the EaP as an initiative, combining the multilateral and bilateral elements, was constituted by the EU’s perceived homogeneity of the Eastern Neighbours’ interests. Already in 2012-2013 the perspective of the new two-speed Eastern Partnership became apparent in light of the fact that only three Eastern Partners (Ukraine, Moldova and Georgia) saw the signing of the AAs with the EU as a political goal. The introduction of the above differentiation and the resulting re-allocation of funds was viewed by specialists as a way to accommodate the strategic choices of all

Eastern partners, simultaneously enhancing the EU support for countries, clearly opting for the European future. The major EU task with regard to the “second circle” of Eastern Neighbours was viewed as “maintaining the current level of engagement” (EEAS, 2015a). At the same time, it was emphasized that the multilateral track of the EaP needs to be revisited to improve the EU overall leverage in the region.

As a result of multiplying economic, political and reforms-related challenges in Eastern Neighbours following the crisis in Ukraine and sharpened East-West tensions, discussing the feasibility of building relations with all the EaP countries under a single umbrella gained a new impetus. Nowadays, the popular suggestion is to launch the “3-1-2” approach that will preserve the benefits, gained through the multilateral track of the EaP, but will let the EU to be more flexible in its relations with the EaP states (Hug, 2015, p.19). While it is clear that there is currently no way for the EU to reverse the strategic decisions, taken by Belarus and Armenia in relation to the Eurasian integration, the EU shall still maintain the dialogue with these countries, focusing on good governance and the human rights agenda. A specific challenge is represented by Azerbaijan, where the EU clearly lacks incentives to promote the improvement of human rights- and the governance-related situation. Launching the mutually beneficial workable framework for the EU-Azerbaijan relations is a crucial diplomatic exercise the EU needs to perform to counter existing human rights violations in the country and to contribute to the mitigation of the border conflict over the Nagorno-Karabakh Republic.

Given complex economic and political challenges in Ukraine, Moldova and Georgia, the EU faces a need to readdress the current EaP incentives in these countries to sustain and to improve the value of European integration for both the governments and society.

## **2. Scenarios for the future: accepting the status quo, insisting on change or building “a shared European home”?**

The assessment of the EU internal challenges, geostrategic threats and domestic issues in the Member States’ provides an opportunity to critically reassess the scenarios for EaP development, previously introduced by the literature.

The major scenarios to be addressed include the EU’s accepting of the status quo and not insisting on framework policy changes; increasing the support for economic stabilization and structural transformation for Ukraine, Moldova and Georgia, as well as attempting to “build a shared European home” by involving Russia into cooperation projects.

The developments of the EU relations with Eastern Neighbours are projected for the period of the next 10 years (up to the year 2026) (see Table 1 annex for a summary on scenarios).

***2.1. Scenario 1. The EU accepts the status quo and does not insist on conceptual policy changes (based on Friedrich Ebert Stiftung Scenario Group EU+East 2030 (2014); Hug (2015))***

***Scope of the scenario.*** The EU makes the division between the “two circles” of the EaP more explicit than it currently is. However, no crucial changes into the existing scope of incentives for the states of the “first circle” are introduced. Specifically, the EU does not grant any of the above countries candidate/potential candidate status or suggests amending the AAs by the long-term perspective. At the same time, the EU will merely rely on existing funding instruments to support the domestic reforms in Ukraine, Georgia and Moldova. However, special emphasis will be made on sustaining and improving the change, envisaged by the 2014 and 2015 Special Measures in favour of Ukraine.

The EU bases the relations with Armenia and Belarus on the new overarching cooperation agreements and the application of the EU unilateral geographic and thematic instruments. However, the Union does not apply efforts to complete the diplomatic exercise, offered by the need to conceptually reframe the EU-Azerbaijan relations. The Partnership and Cooperation Agreement remains the basis for the EU- Azerbaijan ties, granting the EU virtually no chances to influence human rights and civil society issues in the country.

Importantly, the Union sustains and possibly strengthens its response to Russia’s annexation of Crimea, including a broad range of economic sanctions. No significant steps for a long-term rapprochement with Russia and the EEU are made.

*Feasibility assessment*

The introduction of further differentiation into the EaP can be viewed as inevitable in the light of the outcomes of the EaP’s most recent Summit in Riga<sup>12</sup>, coupled with the need to enhance support for the EaP states that signed AAs with the EU.

Despite active scholarly debate on the need to strengthen the EaP incentives for Ukraine, Moldova and Georgia, Riga Summit did not result in the introduction of the new incentives, apart from launching the new Small and Medium Enterprises Facility and a clearer prospect for visa-free travels for Georgia

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<sup>12</sup> On the deepening differentiation in the EaP initiative, see: EU External Action Service (2015a), Joint Declaration of the Eastern Partnership Summit (Riga, 21-22 May 2015).

and Ukraine (EEAS, 2015a). Granting the EaP countries candidate status or including the membership perspective in the AAs is highly doubtful in view of the lack of Member States' unity as regards further enlargement of the Union and the future of the EaP initiative. The 2014-2015 rise of Euroscepticism, the hard economic consequences of the 2004 'Big Bang' enlargement, as well as the current refugee crisis and related security concerns make the membership perspective for the EaP "first circle" even more shady.

The ENI framework provides for the possibility of launching new financial facilities to support the EaP states. The experience of the EU's introduction in 2014 and 2015 of the Special Measures for Ukraine allows suggesting that further support measures, financed from the general budget of the EU, can be introduced to counter political and economic issues in Ukraine. However, there is no evidence that any Special Measures can be launched in support of reforms in Georgia and Moldova.

The commitment to the inclusiveness of the EaP is contained in the EaP Riga Summit Declaration (EEAS, 2015a). To promote and deepen the EU-Armenia bilateral relations, countries currently negotiate the new agreement that is to substitute the existing PCA. A Similar intention was recently expressed by Belarus. However, no progress regarding the EU-Azerbaijan relations can be currently traced. In view of Azerbaijan's prosperity, developed trade relations with the EU and weak interest in the EU financial assistance, it can be contemplated that no significant changes in the EU- Azerbaijan's bilateral relations will take place.

While the ceasefire in Eastern Ukraine remains fragile, the EU sanctions against Russia were not lifted in 2015. At the same time, the EU remains committed to the policy of non-recognizing Russia's annexation of Crimea, extending the operation of related sanctions until June, the 23<sup>rd</sup> 2016. At the same time, it is important to mention a gradual move towards the softening of the EU-Russia relations, conditioned by the fear of the new "Cold War" perspective and cooperation-related needs (see a "shared European home scenario" for further details).

## ***2.2. Scenario 2. The EU increases support for economic stabilization and structural reforms in Ukraine, Georgia and Moldova (emphasizing the EaP differentiation) (based on Hug (2015); Center for the EU Enlargement Studies (2015))***

### *Scope of the scenario*

The scenario is different from the first one with a generally stronger stance the EU takes with regard to reforms in the region without introducing the membership perspective to the countries.

Cutting the support programmes in Belarus, Armenia and Azerbaijan, the EU concentrates on attaining specific deliverables with regard to reform processes in Georgia, Moldova and Ukraine. Importantly, unlike the first scenario, the EU will focus not only on post-conflict stabilization in Ukraine, but supplementary support for reforms in Georgia and Moldova. A focus on deliverables will be maintained through enhanced cooperation with other donors, new conditionality mechanisms and launching new technical cooperation facilities. The EU also includes the membership perspective as the final aim of the EaP project for the “first circle” countries.

The EU also takes a stronger position with regard to resolving “frozen conflicts” in the region (the cases of Transnistria, South Ossetia and Abkhazia) and a potential “frozen” conflict in Donbas region of Ukraine. In particular, it engages in consultations with the leaders of the self-declared republics and Russia and launches special structural support programmes for the above regions. Similar to the previous scenario, the EU continues to apply diplomatic and economic measures to condemn Russia’s annexation of Crimea and its followup actions in Eastern Ukraine.

#### *Feasibility assessment*

The focus on specific deliverables, rather than vague *pro forma* changes is specified in the Joint Declaration of the EaP Summit in Riga without mentioning the specific ways to implement such a focus.

The issue of conditionality remains a tough one due to the fact that the EU is factually running out of new effective incentives following the EaP states’ entering AAs and DCFTAs and receiving a visa-free regime. At the same time, the problem of *pro forma* changes and the adoption of the *acquis*, lacking the real-life implementation opportunities, continue to undermine the EU support of reforms in neighbouring countries. Moreover, the resignation of many “Dream Coalition” members in Georgia and the installation of a minority-led government in Moldova brought about additional challenges to EU cooperation with these countries. In the light of the Ukrainian crisis and its geostrategic consequences, as well as the toughening situation in the Middle East, the introduction of additional country-specific tools to support reforms in Moldova and Georgia seems unlikely, as well as the long debated inclusion of the membership perspective.

The EU’s approach in taking a stronger stance as regards South Ossetia and Abkhazia is problematic due to Russia’s recent successes in building up strategic alliances with these territories (Dempsey, 2014). Transnistria also remains profoundly ‘pro-Russian’. In this view, the avenues for EU involvement remain limited. Overall, the fears of regional spillovers of the Ukrainian crisis and

the new ‘Cold War’ represent an important obstacle to a conceptual shift in the EU’s approach towards the leading EaP states (including the disputed territories issue).

***2.3. Scenario 3. Building a “shared European home” by intensifying the EU and EaP countries cooperation with Russia and the Eurasian Union (EEU) (based on the House of Lords (2015); Friedrich Ebert Stiftung Scenario Group EU+East 2030 (2014))***

*Scope of the scenario*

The EU continues active policy towards the EaP states, in particular the implementation of the AA/DCFTAs. Neither of the EaP states received a membership perspective. The EU continues to support Ukraine in post-conflict recovery. Unlike other scenarios, the EU pays specific attention to including Azerbaijan, Armenia and Belarus by targeting human rights challenges, civil society developments and sector cooperation. Special attention is also paid to cross-border cooperation between the EaP states.

Additionally, the EU makes steps to including Russia (and the EEU) into cooperation programmes in a range of fields, such as trade, the system of collective security, education and culture. In this way the Union uses the success story of European Coal and Steel Community as an economic project, promoting security through enhanced interdependencies.

*Feasibility assessment*

As it was mentioned before, the focus on the EaP inclusiveness was already underlined by the EaP participants as a result of the Riga Summit 2015. Furthermore, the ongoing negotiations of new overarching schemes for EU-Belarus and EU-Armenia bilateral cooperation testify to the Union’s intention to further strengthen the links with these countries. The EU’s continuing emphasis on cross-border cooperation can be substantiated by referring to the scope of the newly launched ENI Cross-Border Cooperation funding instrument<sup>13</sup>.

After the annexation of Crimea and Russia’s intervention in Eastern Ukraine in 2014, followed by the tough diplomatic and economic measures, applied by the members of the world community,

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<sup>13</sup> On the EU’s current efforts to enhance the cross-border cooperation in the EaP countries, see: European Commission (2012), *Memo. New EU funding to boost regional cooperation in the Eastern Partnership region*.

the EU’s rapprochement with Russia would be perceived as impossible. However, while the sanctions are still operating, promoting relations with Russia starts to be more than ever a subject broader discussed in scholarship and policy recommendations. In its Report issued on the 10th February 2015 the British House of Lords stated that the “Member States have to live with Russia as a neighbor, as a member of the United Nations Security Council, and as a regional power” (House of Lords, 2015, p. 80). The major spheres for reinforcing EU-Russian cooperation, underlined by the House, include collective security, a common economic space, as well as cultural and educational exchanges. Irrespective of the way the Ukrainian crisis will continue influencing the EU-Russian economic and security relations, it is suggested that “an ongoing cooperation with Russia in the fields of education, culture and science “shall not be sacrificed” (House of Lords, 2015, p.82). Finally, the House views a possible long-lasting era of cold relations with Russia as “a failure of imagination and diplomacy” (p. 82). Recognizing the impossibility of rebuilding fully-fledged relations with Russia in short-term perspective, Forsberg and Haukkala (2015) and Gromadzki (2015) emphasize the importance of using cultural cooperation and people-to-people ties as the tools to rebuild trust in the long-term perspective. The need to cooperate with the EEU to avoid the “spheres of influence” issue is underlined by Korosteleva (2015).

Importantly, the trend of considering opportunities for including Russia into ambitious economic and security cooperation is conditioned by a range of factors, such as the economic impact of sanctions, fears of the regional spillovers of the Ukrainian crisis, as well as the need for cooperation on global issues. Moreover, cooperation with Russia can help the EU counter the challenge of an “unstable Neighborhood”, caused by a region’s political complexity and the presence of disputed territories. Given the scale and importance of the above issues, as well as the signs of the gradual rapprochement in Western countries’ relations with Russia, it is suggested that the EU will try to build new bridges with Russia in the medium- and long-term perspectives.

## **Conclusion**

The analysis of the feasibility of the possible scenarios for the development of the EU-EaP policy shows that the most likely developments include elements of different scenarios.

Firstly, the EU is highly likely to accept the status quo and not introduce significant changes to the EaP design. Given Eurosceptic developments in a range of Member States, the EU is highly unlikely to supplement the AAs with a membership perspective or grant any EaP states candidate or potential candidate status. While the EU will pay specific attention to supporting post-conflict

transformation in Ukraine, country-specific challenges in Moldova and Georgia may prevent the EU from taking a stronger stance to reform-related efforts in these countries. Importantly, the EU is not likely to intensify its involvement into the resolution of territorial disputes in Eastern Europe, merely due to the persistence of other challenges (e.g., the refugee crisis) and Russia's influence in the disputed territories.

While the differentiation of the EaP is to be preserved, the EU will evidently elaborate on the new focuses and approaches to its cooperation with Armenia, Belarus and Azerbaijan. The inclusive approach to the EaP is important for the EU to sustain its role as a key structural foreign policy player in the region, rather than a player, focusing on highly specific influence areas.

As regards Russia, the EU is most likely to adhere to the dual-track approach. Evidently, the Union will not take radical steps to improve relations with Russia in the short-term perspective. Continuing to condemn Russia's actions in Ukraine and applying sanctions, the EU is likely to use educational and cultural cooperation, as well as people-to-people ties as the preconditions for further trade and security cooperation. The creation of common economic and security spaces, including the EaP countries and Russia, can be viewed as a long-term objective of the Union.

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ANNEX

**Table 1 – Summary of scenarios regarding the EaP future**

	<b>Scenario 1:</b> <i>Accepting the status quo</i>	<b>Scenario 2:</b> <i>Taking a stronger stance</i>	<b>Scenario 3:</b> <i>Building “a shared European home”</i>
Policy differentiation	Included.		
Adding the membership perspective for the “first circle” of states	Not included	Included. Not likely due to internal disagreements in the EU and geo-strategic fears.	Not included.
Special emphasis on post-conflict recovery of Ukraine	Included.		
The introduction of special measures to support reforms in Georgia and Moldova	Not included.	Included. Not likely due to the countries’ domestic challenges and resources’ scarcity	Not included.
Inclusiveness of Azerbaijan, Armenia and Georgia	Included.	Not included.	Included.
Emphasis on cross-border cooperation between EaP states	Included (reliance on existing instruments)	Not included.	Included (facilitated in a more active manner)
Active stance regarding “frozen conflicts” in the region	Not included	Included. Not likely due to the disputed territories integration arrangements with Russia	Not included
Sustaining diplomatic and economic pressure on Russia in short-term perspective	Included	Included.	Included.
Creating avenues for rapprochement with Russia and the EU in medium- and long-term perspectives	Not included. Likely in light of sanctions’ policy effects and security concerns		Included.

Source: own elaboration, based on the scenarios and their feasibility assessment

## MEDIA MANIPULATION AND PSYCHOLOGICAL WAR IN UKRAINE AND THE REPUBLIC OF MOLDOVA

Vladislav SARAN\*

**Abstract:** *Media manipulation and psychological war in Ukraine and the Republic of Moldova is a battleground of various psychological methods in order to subordinate the masses often under cover of alleged common good. In this regard Russian propaganda machinery is one that works perfectly since the Soviet period. Ukrainian crisis swept the struggle for Ukraine's informational space which has also affected neighboring countries, here referring to Moldova. The conflict between Ukraine and Russia now is more ambiguous because information warfare methods and techniques have become more sophisticated and aim directly to misinformation, informational intoxication and propaganda through the media.*

**Keywords:** warfare; television; manipulation; Ukraine; Moldova; social media

**JEL Classification:** F50; D83

### Introduction

Ukrainian crisis has brought up the phenomenon of psychological warfare, part of informational warfare, by using propaganda and media manipulation. Psychological warfare is defined using information against people's minds through information, disinformation, manipulation, propaganda and subliminal techniques for influencing the purpose of changing conception, attitudes, choices and enemy's behavior forces. It takes the form of operations aimed at: the national will, statesmanship, political structures, commanders and cultural heritage (Libicki, 1995, p. 10).

Dissemination of information permanently exerts influence on personal needs level and interests of the people, predisposing the individual to concrete and advantageous political behavior, which, however, is not perceived by society as imposed by the mass media. The psychological impact produced by this new type of war is a difficult subject to study; it is hard to identify the participants because of their clandestine matter.

This paper investigates methods and strategies of media manipulation that were used in Ukraine and Moldova in the context of the Ukrainian crisis. Last but not least, this paper contains ways of

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cooperation and actions, both between EU countries as well as in Moldova and Ukraine, to prevent and combat media manipulation.

### **1. Psychological warfare - fight with the invisible enemy**

The media has a huge influence on political processes in modern society by forming mass visions on economic, political, social issues. If in the first phase of the conflict in Ukraine, Russian media reports about alleged atrocities committed by Ukrainians, easily proved to be false, later Russians began to spread conspiracy theories: for example, the crash of Malaysia Airlines Flight 17 (17 July 2014), the plane was actually filled with corpses and that Ukrainians shot it down in an operation under false flag. Currently, Russian media promotes the idea that any information source cannot be credible.

Some Russian and Ukrainian media outlets avoid publicizing certain topics of public interest, by providing incomplete information, without presenting a complex array for public, or giving them sufficient detail to understand what happens in one case or another. Psychological warfare was mainly seen by using media strategies of exaggerating the facts and by using filtering information and selection of sources. Most of the news were and continue to be unilateral, presenting reality through some alleged representatives of the regions, without providing sufficient access to central authority's position. Russia-controlled TV-channels (such as LifeNews, Россия1, Россия24, Первый канал, НТВ, ПЕХ ТВ) as well as Ukrainian TV-channels (like Inter, Ukraina 24), run by pro-Russia oligarchs or Russian news providers; absorb prominent positions in the Ukrainian media (Veebel, 2015). These publications and online portals illustrated Ukrainian army as criminals, murderers, and even Nazi perpetrators, while ignoring the causes of the war or discussion of Russia's involvement. This image has been created methodically, using very aggressive and emotional rhetoric. Demonstrably false stories of crucified children and raped women were created and replicated in order to discredit the Ukrainian army.

According to Yevhen Fedchenko, Ukrainian journalist and administrator of the site *stopfake.org*, the TV stations as RT (*Russia Today*) and *The Voice of Russia* are the sources of information designed to spread false information about current events, which are directed primarily towards Western audience. Russia Today has an audience of 600 million viewers (Chernichkin, 2014) and set a record of 1 billion views on YouTube. To compare, Ukrainian site *stopfake.org* that reveals Russian false news about Ukraine, have six million visitors in the first six months of existence

(March-September 2014). Therefore it is clear that the financial possibilities of the Russian propaganda succeed to cover a large enough area as to form public opinion on Moscow will (Chernichkin, 2014).

## **2. Myth of community of all post-Soviet states**

Entertainment is a very effective modern weapon in the context of manipulation of the masses, because political events and foreign news, which change every day, are poorly understood by ordinary citizens and attachment to TV channels seems to be a harmless fun. The individual feels psychological need to be attached to a media outlet that can be considered of a greater trust and that will provide a brief summary of all events in an accessible language.

Piotr Pogorzelski, notes in his book "Ukrainian borsch: from the Soviet state to dignity revolution (2015) " the gap between the reality that tries to be present on television and real life in Ukraine. Most of the TV channels in Russian are an assortment of channels, series or feature films that tell either nostalgia for the Soviet period or the adventures of heroes in post-Soviet period. An efficient Moscow media tool of influence is, what is called, the maintaining of "*myth of community of all post-Soviet states*" (Pogorzelski, 2015, p.62). By this notion, polish author considering some Russian melodramatic serials very popular not only in Ukraine or Moldova but throughout all the former Soviet countries forming indestructible concept that people in CIS countries have a common lifestyle, shared a common language of communication and common social problems. In particular there are very popular detective series (such as "*Streets of the Broken Lanterns*" or "*Gluhari*" the mountain rooster") and documentaries about the Soviet army and the brave soldiers fighting in the Second World War.

However young and middle-aged people, like writer Irina Karpa, gave up watching the TV in favor of watching other entertainment on personal computer. The writer stresses she cannot understand why Ukrainians watch Russian TV series. They are ridiculous, they really showcase another reality, and other people, other problems and she feels it so in Ukraine as abroad (Pogorzelski, 2015, p. 63). I. Karpa recognizes the fact that there is no good quality Ukrainian TV production or entertainment as a viable alternative and the majority of the people watch Russian TV stations simply because are they got used to them and because they do not want to know anything else. In Moldova there is the same lack of attractive TV channels to combat big budget Russian TV propaganda channels.

The audience unconsciously attach themselves to a media outlet that step by step dictates and shows to the viewers some kind of reality, that ultimate goal is being to generate collective positive reaction to the news that follow right after the so loved Russian TV series. Thus, Russian entertainment loyal viewers have a reduced capacity to question news like that the Russian Federation could be involved in the collapse of Malaysia Airlines Flight 17 that crashed on 17 July 2014. Those viewers who have unshaken confidence in Russian television will believe that it is true that the plane was hit to the ground by Ukrainian rebels and the Russian Federation has no involvement with this tragic incident. Reporting on the situation in Moldova, a big part of TV audience is attached to the Russian channels, particularly those in the Transnistrian region, and this part of population are opponents of Moldova's European path and are not even interested in arguments and benefits of EU membership.

### **3. Manipulation of public opinion through printed newspapers**

Printed newspapers seem to be "yesterday's news" as apparently we believe that all people shall inform today only from TV channels, or from the Internet and in a lesser extent from radio. Printed newspapers still have their loyal audiences so obviously manipulative articles are precedent in many publications.

As an example of manipulative paper will serve the article from Russian newspaper "Moldavskie Vedomosti " from July 11, 2014 with the title "Закреть все российские телеканалы, чтобы молдаване разлюбили Путина" (Close all Russian TV channels for Moldovans to no longer like Putin). The article analyzes the decision of Coordinating Council of the Audiovisual (CCA) dated on July 4, 2014 which prohibits retransmission of "Russia 24" TV channel in Moldova up to 1 January 2015. CCA decision was totally justified based on fact that "Russia 24" spread a big amount of news, reports as propaganda against the Republic of Moldova. "Moldavskie Vedomosti" newspaper fights back by this article accusing CCA decision and, as the author considers, the real reason for ceasing "Russia 24" TV channel is "unprecedented popularity in Moldova of Russian President Vladimir Putin and his policies in support of Ukraine" (Timotin, 2014). "Moldavskie Vedomosti" article's arguments resume demonstrating that a CCA decision is favorable to a particular political party, the "Russia 24" does not rebroadcast manipulation news and overall Russian TV channels have no tools to affect Moldova's European path.

In this regard any newspaper reader who considers more sources of information should realize that the message of the article is at least questionable. In comparison, "Timpul de dimineata" (Time), one of the most popular Romanian language newspapers, started a campaign to publish articles that warn about Russian propaganda in Moldova *Timpul de Dimineata* (2014). During this campaign, columnists give the name of the owners of the main Russian TV and radio stations that considers being toxic for Moldovan informational area and even urges to boycott them. Therefore newspapers "Moldavskie Vedomosti" and "Timpul de dimineata" are publications with editorial policy opposing each other and each media outlet defends in its kind the interest of the funders or financier. Newspapers also must keep their readers in digital era when printed newspapers tend to disappear in favor of more attractive sources of information.

How should we read newspapers? This requires reading and analysis of several publications of different political orientations, so first of all several doubts appear about the content of the paper therefore generating the necessity to consult other sources. Only then the ability to identify manipulation in media will appear. In this context, unfortunately loyal readers of the newspapers "Moldavskie Vedomosti" and "Timpul de dimineata" and are not habitual to read the newspaper of each other, because they consider themselves opponents. Thus said, Russian-language readers do not read Romanian language newspapers and vice versa. The language barrier is one of the obstacles but often supersede human ignorance to listen to another opinion.

#### **4. The invasion of cyberspace trolls army**

The Internet is a cyberspace of communication offering currently the first platform of interaction between people. Every citizen has the right to present their idea, to unite with others in virtual groups and to start or pursue a civic initiative of any kind at will. Or so we are left to believe. Unfortunately at the moment we find that social networks, personal blogs or informational platforms, declaring themselves independent, but serving as a tool of manipulating the population by forming a public opinion favorable to the ruling political class. In this context, there is a group of people that are willing for a financial remuneration to spread through comments, posts to multiple social networks favorable information about his employer that are often the politicians in power. These computer workers are called *trolls* and their general task is to improve the image of their boss in cyberspace in order to hide or discredited those information sources that reveal their true identity.

"Trolls army" workers in political purposes are a widespread phenomenon in the Russian Federation but also maintained abroad. Recently it has been discovered a "cell of trolls" in Finland,

the Finnish authorities suspect that the source of financing is Russian Embassy in Helsinki. Putin used the trolls in the "information war" with Ukraine, after the annexation of Crimea and during the conflicts with its eastern neighbours (Esanu, 2015).

Newspaper "The Guardian" warns in an analytical study about the fact that hundreds of bloggers are paid to flood forums and social networks in Russia and abroad with messages against the West and with comments favorable to Kremlin (Shaun, 2015). The Guardian writes about identifying a building in St. Petersburg, Russia, that housed hundreds of bloggers working on forums, social networking who wrote reviews for Western publications tinted favorable, with remarks approving the policies of Vladimir Putin. So, trolling means to create multiples blogs and fake accounts on major social networks (Odnoklasniki, Vkontakte, Facebook, Twitter etc.) and had to spread different pro-Kremlin messages composed by editors who also monitor their activity.

Editor's strategy was to create a mix of news which would be difficult to realize the attempts to manipulate public opinion. This can be achieved by creating a flow of information both through non-political posts (such as fashion news or culinary recipes) and political comments that are strictly created by editors and multiplied by trolls. "We had to write 'ordinary posts', about making cakes or music tracks we liked, but then every now and then we had to throw a political post about how the Kiev government is fascist, or that sort of thing. There are posts about "Europe's 20 most beautiful castles" and "signs that show you are dating the wrong girl", interspersed with political posts about Ukraine or suggesting that the Russian opposition leader Alexei Navalny is „corrupt," as recognized one former employee of the troll enterprise (Shaun, 2015). Therefore it can be noted the same strategy of capturing the attention of the public through television by showing entertainment channels before broadcasting news bulletin.

The effect of these posts is achieved when blog and comments readers accept posted information on the social networks and considers that being real one supporting by giving "like" and "share". Therefore information distribution occurs through *Facebook friends* that not even suspect that they help trolls. Propaganda and information manipulation is accomplished through "snowball effect", meaning that a comment, seemingly harmless, is perceived as a reality and is increasingly distributed among friends of your friends on social networks.

For more clarity it will be described a sequence of troll's action under a concrete example. The start is choosing an event that occurs in several media sources, for example, the Charlie Hebdo shooting in Paris (7 January, 2015).

Editor's task is to show the Kremlin in a positive light in the general perception of Internet users, which can be reached through troll's comments. The trolls worked in teams of three.

First post news with the message: *"Vladimir Putin contacted the French leader immediately, despite the bad relations between Russia and the west"*

The other two trolls will interfere with supportive comments about Putin's correct gesture on the phenomenon of terrorism nowadays, with comments such as: *"The Russian leader has always stood against aggression and terrorism in general. Thanks to the president's initiatives, the number of terrorist acts inside Russia has decreased dramatically."*

Plus the necessary act to denigrate the United States, and the trolls here will bring abusive posts, for example, against Jennifer Psaki, former spokesman for the US State Department. Trolls will recall the incident in 2014 when Ms. Psaki appeared at a press conference in one boot, actually wearing a transparent orthopedic boot used in cases of traumatic injury to the leg. However, without a closer look you can really see that Ms. Psaki has a naked foot. Russian media at that time preferred to say that Ms. Psaki was forgetful and wear one boot.

Therefore, the trolls will post video of this incident and will comment mischievous:

*"Jennifer Psaki looked stupid without one boot. She is the face of USA and appears barefoot in public? He has no shame, no honor, and no nobility, actual US image is built on lies and hypocrisy ... "*

Following these posts will be other comments denigrating the US, but with sympathy for the victims of Paris and of course pro-Kremlin messages.

Thus, it was created a core of information that web surfers are ready to join and distribute voluntarily on social networks on the basis of "snowball effect" method. Note that international events are consumed very quickly in the informational cyberspace but the impression about the reaction of one or another political actor remains in the collective memory, which also determines the political leaders to engage not only specialists in Public Relations, but also hundreds of workers that make an army of trolls.

The Guardian points out that not all trolls are fanatics or followers loyal to the Kremlin regime. Many of them work just for money even if aware that spread propaganda and negative nonsense in the comments.

*"If every day you are feeding on hate, it eats away at your soul. You start really believing in it"* as said by a former worker (Shaun, 2015).

The LiveJournal blogger, who spent two months working as a troll, was paid around 45,000 rubles (£520, \$790) a month, to run a number of accounts on the site. The highest paid are trolls who

speak English and comment online articles of the prestigious New York Times newspaper and the British television BBC. But besides good knowledge of English language editors actually require an essay which shows the candidate's political beliefs. Only in this case those will convince that fully support the Kremlin and may be promoted to receive a higher remuneration.

Finally, the work of these bloggers is illegal because all of whom were employed unofficially received money only in cash, had to hide their IP addresses, were forbidden to discuss their work with friends and the only document they signed on employment is one that is obliged to not disclose the work they perform. Therefore we can qualify trolls social network's posts a secret activity but which was born as a result from initiatives founded and designed by specific state structures; we might suspect that they offer not only working conditions but also protection in the event of any charges as participants in the cyber warfare. In any case no one could provide evidence that Russian state structures have any links with so called, "trolls army".

### **5. Dispute reflection in Ukraine by Russian stations retransmitted in Moldova<sup>1</sup>**

The monitoring period: 10 to 24 April 2014.

The TV stations monitored: Rossia 24, RTR, Pervyi Kanal.

*Object of monitoring:* the main news and discussion channels / live talk shows aired in prime-time.

*General trends.* The monitoring showed that the monitored TV stations were manipulative (in particular RTR, Rossia 24) resorted to deliberate misinformation in an attempt to demonize the authorities in Kiev and victimize separatists in the southeast. Handling occurred particularly by exacerbating the facts, the information filtering and selection of sources by tone of coverage of the subject. Most of the news were unilateral, presenting reality through the prism of alleged representatives of the regions, without providing sufficient access for central authorities to present their position. The images used by some media sending messages able to cause panic among the population, to create a feeling of anarchy and chaos.

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<sup>1</sup> From monitoring report of the campaign launched against information manipulation by the Independent Press Association (API) with the support of Free Press Unlimited (Netherlands) and National Endowment for Democracy (USA).

*Monitoring on Rossia 24*

In many cases, stories were accompanied by video presenting helicopters, armored cars with flags of "People's Republic of Donetsk" cars in flames, people with hoods on their heads, pogroms, shootout, fires, deaths, and funerals of those killed. Note that although the monitoring period, which was relatively quiet during the Easter holidays, there were no clear cases of manipulation by video images, media experts from Ukraine reported after several cases of crass manipulation of information and video. A good example of this is the broadcast on Rossia 24 (16 May 2014) about a fake report, with fake images taken from the archive of TV station. Thus, at minute 3:22 of the report "*Priseaga pod stvolami: pocemu iz Natgvardii ubegaiut kontraktniki*" (in translation - "Oath under weapons threat: Why contracted soldiers escape from National Guard") broadcasted images of the Donetsk region of Ukraine representing a dead body presented as National Guard deserter who had been killed for treason by Ukrainian forces (Arsenichev, 2014). In reality, these videos were filmed on 18 November 2012, during anti-terrorist operations of the Russians in the town Baxanionok, Kabardino-Balkaria region of the Russian Federation. This case proves malicious misinformation and may be classified as propaganda, reportage pointing deliberately false information in order to demonize one side in the conflict.

In relation to the representatives of the regions which seek federalization, often in Rossia 24 reports are used such terms as "*popular army members*," "*activists*". Officials of Kiev central government were labeled like "*murderers*", "*Slaviks*", "*Kiev Junta*", "*fascists*", phrases that are used abundantly in newsletters of 22 and April 23, 2014. Some news used formulations able to cause adverse reactions and panic among the population such as, for example, phrases like "*at first just beat him now threatens with execution*" (the news about beating Oleg Tariov from 18 April 2014) or "*already know that among those who are planning their attack there are 11 thousand civilians from the National Army and the Right Sector*" (the news of 24 April 2014) (Asociatia Presei Independente din Moldova, 2014).

*Monitoring on RTR post*

RTR post prioritized topics that were related to the negotiations and the Geneva agreement; intention to hold a referendum on May 11, 2014 in the southeastern regions of the right to self-determination; operation carried out by soldiers in Kiev after which one person was killed and several were injured; discovery of weapons with "Right Sector" symbolism; restrictions on the Ukrainian border with Russian citizens aged between 16 and 60 years; Kiev's decision to initiate anti-terrorist

operation following the murder of a deputy; Slaviansk siege; Luhansk miners' protest; hysteria "green men" ("Zeleny chelovecki") and hunting rewards of them.

The main messages sent through RTR news were: number of cities protesting against the Kiev policy increases day by day, people struggle for federation, for their right to speak their language are ready to pass the barricades; activists easily takes in possession military equipment; activists do not surrender to avoid being persecuted and exterminated later. Also, to viewers are send the idea that the new leadership of the Ministry of Defense is showing a total inability to lead the army, officers and soldiers are neither fed nor properly prepared, are kept in unsanitary conditions, the army is currently led by representatives "Right Sector," and this has led soldiers and officers to seize weapons and to rebel against those who govern them; Ukrainian soldiers refused to fight under the Maidan leadership; soldiers, policeman pass by the people's army. Another assumption was formulated by news that representatives of "Right Sector" assault peaceful citizens want Oleg Tariov execution (presidential candidate); members of "Right Sector" are junkies. Other messages launch idea of US involvement in events in Ukraine and conflict escalation. Washington is accused of a global crisis need not to pay enormous foreign debt, and the conflict with Russia as part of the scenario. It is also heavily promotes the idea both heroism and unity of the Russian people, who prefer to die to defend their homeland during war and military force that holds Russia, which has capacity to strike back (April 21, 2014). To give weight and credibility to messages, the news often refers to the opinion of Vladimir Putin expressed during live communication with citizens, eg allegations against US or characteristics of the philosophy of Great Russian people.

During the monitoring period, RTR post was mimicked diversity of opinions. Thus, for example, in the story about "the discussion of Putin with people" it was announced that during the presentations followers annexation of Crimea had the right to reply, but also those who did not support the idea, such as for example Irina Khakamada, former leader of the Party "Nash vybor ". However, for her statements are selected only passages praising Putin.

#### *Monitoring on Pervyi Kanal*

Although during the monitoring period, Pervye Kanal had less news about the situation in Ukraine (total 20) in comparison to channel Rossia 24 and RTR, however, the subject was approached from the same perspective, namely about the separatist regions supported by Federation Russian. Relevant news sent messages to viewers according to which Ukraine do not wants to uphold the agreement in Geneva; regions residents are not satisfied with the new leadership in Kiev and the

referendum would escape them from poverty; Lugansk residents want to join Russia, and those of Donbas afraid to stay in the city as central authorities sent army against the people (April 18th 2014).

In the news and talk-show appear armed soldiers, broadcast images of funerals, military aircraft, barricades, armored cars. Journalists use such terms as "*Donetsk People's Republic*", "*popular army*", "*popular army members*," "*People's Government*". In contrast, those who do not support separatism are presented as "*radical*," "*nationalists*". In the talk-show "*Politics*" from April 24, 2014 opinions were expressed in a position to incite hatred and violence such as, for example, the statement that "*for the country you must be ready to kill and die. When you have a political dialogue, we must be ready to defend and die. (...) I opt for annexation of East Ukraine or death.*"

The monitoring showed that the vast majority of stations analyzed systematically propagated the idea of separatism in south-eastern regions of Ukraine. Media outlets monitored various used methods / techniques of propaganda to promote Russia's position in the conflict, such as:

- *rumors* (about Ukrainians and people who speak English having weapons of foreign production fighting alongside rebels);
- *misinformation* (rigging video images, some reports including archival footage filmed a few years before, in a different place);
- *manipulating information* filtering information, distortion of messages, labels etc., able to contribute to a positive image of regional and followers of the federalization, (portrayed as victims, heroes who fight for the right to self-determination and their right to their land);
- *Putin – portrait as authority*, omniscient, conciliatory figure. Central government in Moscow headed by President Putin knows the history and character of Russian people able to die to defend homeland;
- These materials can lead to stereotypes about the central authorities and the Ukrainian army (incompetent, impotent aggressors).

The phrases used to reflect the protagonists involved in the conflict were often antagonistic (referring to representatives of the separatist regions were used such phrases as, "took possession", "defends", "defend their land" "inhabitants and peaceful protesters", "heroes who defend their homeland," "activists". In contrast, referring to representatives of the central government and the military were used such phrases as - "fighting their own people", "assault peaceful inhabitants", "army is hungry", "technique is degraded", "Right Sector members are alcoholics, drug addicts, murderers").

In conclusion, we determined the use of filtering topics, subjective information about the motives and the way in which events unfolded during the reference period, pseudo diversity of views and opinions expressed through selecting sources expressing the same thought and transmitting the

same message and not including alternative sources. Also there were used manipulating texts and images, including constant repetition of lexemes to operate at the subconscious level of targeted audience, they were all able to distort messages to misinform and manipulate public opinion regarding the subject of Ukrainian dispute.

## **6. How to fight in psychological warfare?**

A positive example when the EU takes action against Russian propaganda is cooperation between Germany and Estonia in the media. German foreign minister Frank-Walter Steinmeier announced in a press conference in Tallinn (4/17/2015) that Germany and Estonia will start cooperating in the media sphere, with the aim of counterbalancing Russian propaganda. The two countries intend to cooperate in public media sphere, with the aim of strengthening civil society, promoting education and counterbalancing Russian disinformation. In this sense, Deutsche Welle (DW), and Ainar Ruusaar, a board member of Estonian Public Broadcasting (ERR), signed an agreement between the two organizations, with DW expected to support the new Russian language TV-channel ETV+ (Tambur, 2015a). Germany will also start supporting basic and advanced training channels for journalists and journalism students via German Academic Exchange Service (DAAD). Editorial internships in Germany for interested Estonian journalists via International Journalist's Programme (IJP) will also be offered (Tambur, 2015b).

Lithuania has launched a legal process to stop the translation of the programmes of Russian TV channel Ren TV Baltic for three months starting from January 2015 (Richter, 2015). According to the motivation, the station's programmes on the war in Ukraine spread one-sided information and were instigating war and hatred. The allegations were backed by the opinions of media experts from the University of Vilnius. The commission also decided to launch the banning procedure of two other Russian channels, RTR Planeta and NTV Mir Lithuania because of lacking of journalistic objectivity, transmitting unproven information and propaganda. Broadcasting of these two channels has already been banned for three months (spring of 2014). The highest term for banning according to Lithuanian law is one year. Russia has already criticized the plan put forward by Lithuania, Estonia, Denmark and the UK to counter Russian propaganda, stating that creating a counterpropaganda channel goes against the freedom of press.

As a defense tool, Republic of Moldova builds online platforms informing about propaganda and media misinformation. For example, *mediacritica.md* is an information portal that combats the

phenomenon of propaganda and manipulation in the press and fosters critical media consumers in Moldova. This site is a platform for a national campaign that aims to inform consumers of media propaganda and disinformation about the phenomenon and to prepare them to identify false information disseminated by the media, and social networks. Also Independent Journalism Center is the creator of media education project which aims to inform young people about the dangers of media manipulation. Students from several Moldovan schools and high schools will be able to participate in a new round of media lessons to learn how the media works, what is the media's role in society, what rules must be observed on writing a news etc. (Media Azi, 2016). Media literacy is an absolute novelty in Moldova and will definitely help increase the awareness of youngsters on media manipulation.

### **Conclusions on Republic of Moldova case**

Republic of Moldova suffers as a result of psychological war and media manipulation. Many Moldovan media outlets are using various methods / techniques of propaganda to promote Russia's position in the Ukrainian conflict, Transnistrian conflict or pro-Russian view regarding European Integration of Moldova. Currently, the big part of media, unfortunately, is depending, financially of goals of Moldovan oligarchs. In this respect Moldova doesn't have any protection in psychological war started by Russian Federation. Even more, media manipulation is an excellent tool on population control so the access of equidistance information among Moldovans is very low. Russian TV channels domination amplifies the impact of Russian policies in Moldovan society by keeping the existence of a set of stereotypes positivist related to Russia's President Vladimir Putin, in particular.

Totalize with conclusions about Russian propaganda in Moldova, it is clear that policies of "soft power", via news and entertainment, promoted by Russia have a particularly serious impact including due to the complicity of the political class in Moldova. No government and no political party have not been able to promote policies to strengthen the population based on the spirit of citizenship, by overcoming the Soviet past, overcoming conscious ideological and ethno-linguistic clichés inherited from the USSR. The ruling parties ignore all claims of the Moldovan society in terms of combating the effects of Russian media manipulation. Instead, they seek possibilities of establishing "traditional relationships" with the Kremlin administration and not try using state resources to counter the consequences of informational war.

Therefore *media manipulation* and *psychological war* in Ukraine and Republic of Moldova is a struggle to conquer the minds of the people through various psychological methods in order to

subordinate the masses often under the guise of illusion of receiving freedom and control of information. The difficult of psychological war research is in their clandestine weight.

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## POSSIBLE IMPACT OF RECONCEPTUALIZATION OF THE EASTERN PARTNERSHIP ON FURTHER INTEGRATION WITHIN THE EU

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**Abstract:** *The involvement countries of bilateral and multilateral economic relations, global markets and integration enables the achievement of mutual and multiple benefits which in the case of the Eastern Partnership expressing as security, stability and prosperity, democracy and the rule of law. On the basis of Cost benefit analysis and SWOT analysis, the paper will analyzes the impact of Eastern Partnership on achieving economic objectives of member states of the partnership and the impact of the current situation and issues reconceptualization the mutual relations of partners in foreign trade. As a separate issue the paper analyzes the relationship between the Republic of Serbia with the member countries of the Eastern Partnership in order to detect potential threats and benefits in international exchanges.*

**Keywords:** partnership; integration; foreign trade

**JEL Classification:** F10; F13

### Introduction

Regional integration present economic associations that are generated to form a transnational order and ensure maximum utilization of institutional own advantages (capital, technology, direct investment). The economic dimension of globalization refers to the increase in trade, investment, financial flows, as well as, the creation of a global world market with increased economic and trade activities.

The processes of globalization emerged as a result of deregulation policies under the leadership of the United States after Second World War. The liberalization of world trade within the framework of the GATT (WTO) has resulted in an accelerated economic development of the national economy. The free flow of capital, goods, services and labor, are guaranteed by the legal framework and measures taken by the organization: WTO, World Bank, IMF and the EU.

However, despite numerous advantages of integration and globalization, economic associations, the European Union and Eastern Partnership face the problems that affect the economic and international policy.

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Current situation in the EU suggests the existence of sub-blocks in the segments political system and foreign policy within which the EU has introduced sanctions against Russia. The concept of the Eastern Partnership is problematic after the Russian intervention in Crimea.

In these conditions, sets up the question of influence relations between member states partnership in the economic relations, especially in terms of unwinding foreign trade. Does the global market in these two economic associations increased or reduced and that the market has greater loss? Is the question reconceptualization of the Eastern Partnership sets in the domain of foreign trade?

### **1. Indicators open economy in contemporary forms of integration**

Eastern Partnership consisted of 28 member countries of the EU and Armenia, Azerbaijan, Belarus, Georgia, Republic of Moldova and Ukraine. Within the framework of this partnership are implemented political, social and economic reforms which are based on common values and have got three objectives: accelerating political association, furthering economic integration between the EU and its eastern neighbors and providing for citizen's mobility.

The situation in the relations between the EU and the Eastern Partnership conditions on the forming of new economic trends and tendencies. Therefore, establishing new relations in international trade contributes to the strengthening or weakening of the concept of open economy. The paper analyzes some indicators of economic openness and relations between countries with other countries within blocks or alliances: the volume of foreign trade, the share of foreign trade partners in the realized exchange and import/export as part of GDP.

#### ***1.1. The volume of foreign trade***

Analysis of the volume of foreign trade of Russia in the previous five-year period (2011 to 2015) indicates a decrease in the volume and value of trade in relation to the year 2011. The largest decrease value of import and export was recorded in 2015 when imports dropped by 42% and exports by 35% compared to 2011 (Table 1).

Analysis of the volume of foreign trade in the EU (Table 2) shows a decrease in the volume and value of import while export recorded a significant reduction in 2015. Export in 2014 was higher compared to 2011.

Analysis of the volume of foreign trade in Ukraine (Table 3) shows a decrease in the volume and value of import but only in 2015. In previous years, the increase recorded in what is the largest

recorded in 2013. Export is decreasing but is not yet recorded export value which is less than the amount in 2015 (all indices are over 100).

**Table 1 - Movement of import and export of Russia from 2011 to 2015 (US Dollar)**

Year	The value of imports	Index (2011=100)	The value of exports	Index (2011=100)
2011	306.091.490	100	516.992.618	100
2012	316.192.918	103	524.766.421	101
2013	314.945.095	102	527.265.919	102
2014	286.648.777	94	497.833.529	96
2015	177.292.663	58	333.501.801	65

Source: The International Trade Centre database, <http://www.trademap.org/>

**Table 2 - Movement of import and export of EU from 2011 to 2015 (US Dollar)**

Year	The value of imports	Index (2011=100)	The value of exports	Index (2011=100)
2011	6.234.535.082	100	6.078.138.553	100
2012	5.825.056.461	93	5.796.407.018	95
2013	5.875.833.221	94	6.058.563.940	99
2014	6.001.790.604	96	6.135.040.532	101
2015	5.194.361.489	83	5.372.239.298	88

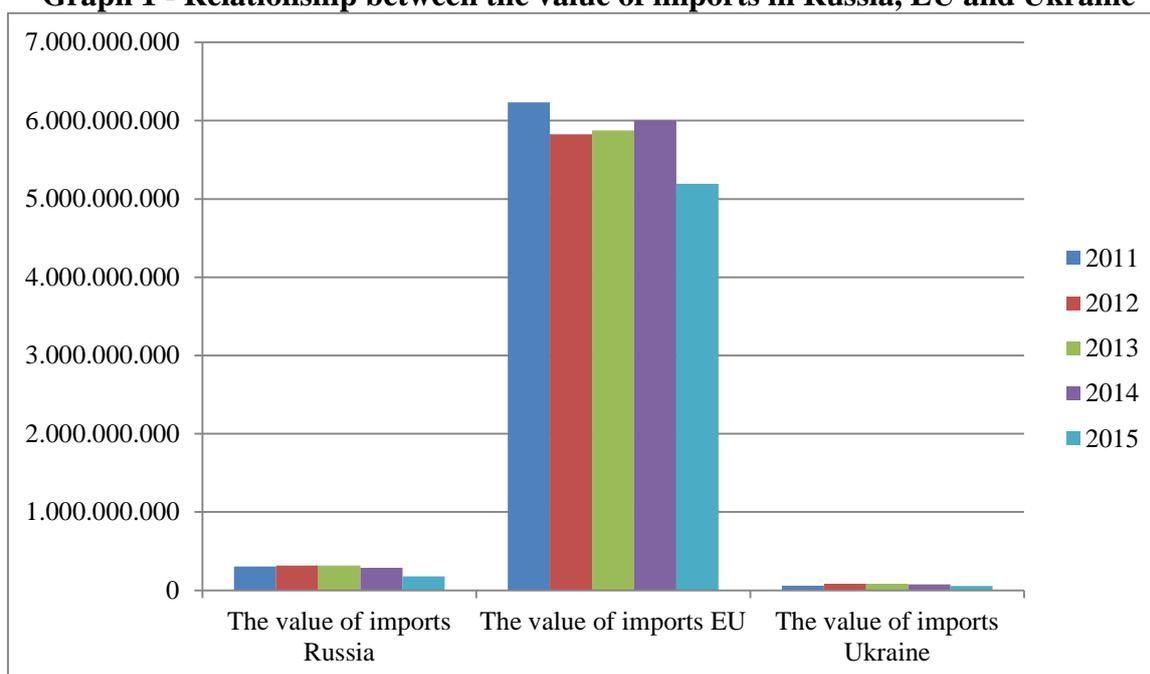
Source: The International Trade Centre database, <http://www.trademap.org/>

**Table 3 - Movement of import and export of Ukraine from 2011 to 2015 (US Dollar)**

Year	The value of imports	Index (2011=100)	The value of Exports	Index (2011=100)
2011	60.737.135	100	51.430.286	100
2012	82.607.537	136	68.393.034	133
2013	84.656.667	139	68.694.495	134
2014	76.986.013	127	63.320.469	123
2015	54.381.409	89	53.913.302	105

Source: The International Trade Centre database, <http://www.trademap.org/>

Analysis of the volume of foreign trade is one of the segments of analysis mutual relations within the EU, Ukraine and Russia. However, the existence of other economic problems can be viewed through the prism of trade policy. These are firstly, adverse changes in the GDP, employment and investments. Negative changes in external trade will not be the same volume and intensity to touch all countries taking into account the total value of their imports and exports. Thus, the EU exports 12 times higher than Russia's exports and 96 times from exports of Ukraine. Imports were 20 times higher than Russia's imports and 81 times Ukraine on imports (Graph 1).

**Graph 1 - Relationship between the value of imports in Russia, EU and Ukraine**

Source: author's representation using The International Trade Centre database

### *1.2. The share of foreign trade partners in the realized exchange*

Analysis of the participation foreign trade partners of Russia in the imports shows the largest share of China and Germany with more than one-quarter exchange. However, analysis of the ten most important foreign trade partners shows that all countries in 2014 reduced their participation in the exchange (except for United States of America and Kazakhstan, but they reduce imports in 2015).

Among the ten most important foreign trade partners three are EU member states. Analysis of relations between Russia and the EU shows the impact of sanctions and against sanctions to the volume of foreign exchange. EU imposes sanctions on Russia in March 2014 due to the annexation of Crimea.

However, certain products despite the ban on import arriving to Russia from neighboring countries (Belarus) which represents the development of re-export. Russia has imposed sanctions and embargo on EU, sanctions on France and Ukraine, against sanctions to Montenegro, Albania, Iceland, Liechtenstein and Ukraine and the ban imports from the Netherlands.

Analysis of relations between Russia and the countries of the Eastern Partnership in imports shows that Ukraine is the eighth partner with a share of 5% in the period from 2011 to 2015. Other countries don't have greater importance of foreign trade (Georgia is 65, Armenia 66 and Moldova 69 partner).

Analysis of exports by foreign trade partners shows the highest participation Netherlands and China. Ukraine is at the value of exports from Russia 12 trading partner with a share of 2.85% (Armenia is 49, Moldova 51 and Georgia 57 partner). Suspension of free trade agreements with Ukraine in 2015 will affect to reduce the participation of Ukraine in the foreign trade activities of Russia.

**Table 4 - The ten most important foreign trade partners of Russia to import and export from 2011 to 2015 (US Dollar)**

Import						
Partner countries	2011	2012	2013	2014	2015	%
China	48.038.378	51.767.694	53.173.086	50.853.010	34.077.598	17
Germany	37.436.682	38.289.660	37.904.569	32.947.335	19.909.557	12
United States of America	12.881.410	15.505.298	16.717.711	18.594.395	10.814.961	5.3
Belarus	14.508.643	12.991.857	13.959.262	12.316.244	8.445.717	4.4
Italy	13.296.465	13.433.189	14.563.302	12.683.365	8.102.874	4.43
Japan	15.012.611	15.676.090	13.560.500	10.917.410	6.661.581	4.41
France	9.825.079	13.806.116	13.021.468	10.551.969	5.766.354	3.78
Ukraine	20.000.466	17.955.443	15.790.890	10.714.366	5.547.517	5
Kazakhstan	6.912.746	9.409.256	5.664.931	7.172.377	4.656.477	2.41
Korea, Republic of	11.575.682	10.976.879	10.305.436	8.972.462	4.461.377	3.3
Export						
Partner countries	2011	2012	2013	2014	2015	%
Netherlands	61.240.029	76.036.014	69.259.511	66.683.274	38.670.526	13
China	34.692.362	35.766.830	35.625.420	37.414.604	27.308.038	7.12
Germany	22.766.472	24.039.166	22.962.139	24.950.268	24.638.146	4.97
Italy	27.902.346	28.018.170	29.164.844	28.991.185	21.795.936	5.66
Turkey	15.086.788	16.103.173	15.122.092	14.755.154	19.145.807	3.34
Belarus	24.930.203	21.380.405	16.870.228	16.539.841	15.038.038	3.95
Japan	14.234.690	15.588.027	19.667.508	19.830.781	14.190.916	3.48
Korea, Republic of	13.329.721	13.865.479	14.867.070	18.081.831	13.091.553	3.05
Kazakhstan	14.173.690	14.892.490	17.218.175	13.862.274	10.451.073	2.94
Poland	21.194.164	19.753.359	19.408.184	15.760.463	9.512.996	3.57

Source: The International Trade Centre database, <http://www.trademap.org/>

Analysis of the participation foreign trade partners of the EU in the realized imports shows the largest share Germany, United Kingdom and France which to achieve about 40% of total trade. The relationship between partners in terms of participation in foreign trade has not significantly changed in the last five years, but all countries reduced in 2015 the value of imports compared to the previous year.

Analysis of the participation foreign trade partners in exports shows the largest share Germany, Netherlands and France which to achieve over 45% of total exports. All countries reduced their participation and the value of exports in 2015.

**Table 5 - The ten most important foreign trade partners of EU to import and export from 2011 to 2015 (US Dollar)**

Import						
Partner countries	2011	2012	2013	2014	2015	%
Germany	1.260.297.537	1.161.213.213	1.187.314.564	1214955667	1.056.340.529	20.18
United Kingdom	717.606.233	689.137.011	657.222.528	694.344.323	629.228.889	11.63
France	720.457.190	675.085.211	681.545.292	676.940.135	572.693.106	11.42
Netherlands	594.722.586	587.513.399	589.746.624	589.735.299	506.971.551	9.85
Italy	558.831.982	489.104.116	479.336.353	474.082.559	408.971.013	8.27
Belgium	467.222.955	439.567.335	451.730.083	454.859.752	379.123.999	7.53
Spain	362.834.519	325.835.176	332.266.846	350.977.773	305.266.032	5.76
Poland	210.723.386	199.258.268	207.631.110	223.786.654	194.238.024	3.56
Austria	191.532.282	178.691.580	183.298.994	182.097.196	155.591.292	3.06
Sweden	176.944.638	164.542.409	160.588.788	162.220.676	137.986.742	2.75
Export						
Partner countries	2011	2012	2013	2014	2015	%
Germany	1.482.202.274	1.410.129.633	1.450.950.921	1.498.157.778	1.331.193.671	24.36
Netherlands	667.501.474	656.028.757	671.633.593	673.007.893	567.700.354	10.99
France	596.825.675	569.273.198	581.026.740	580.758.163	506.130.343	9.63
United Kingdom	517.288.693	481.225.754	548.041.853	511.145.443	465.921.609	8.57
Italy	523.256.296	501.528.851	518.095.103	529.528.733	458.751.239	8.59
Belgium	475.956.377	446.384.629	468.814.580	472.554.246	400.249.590	7.69
Spain	298.170.964	285.936.446	310.963.648	318.649.312	278.122.010	5.07
Poland	188.809.418	185.558.854	205.007.562	220.262.067	198.323.753	3.39
Czech Republic	162.391.721	156.422.743	161.524.152	174.279.452	155.677.685	2.75
Austria	177.534.038	166.777.447	175.176.378	178.337.444	152.914.141	2.89

Source: The International Trade Centre database, <http://www.trademap.org/>

Analysis of the participation foreign trade partners of Ukraine in the realized imports shows a dominant share of Russia's (30%). The second and third partners are China and Germany, but their participation is three times less than Russia's. However, the value of imports of Russia's in 2015 reduction of 45% compared to 2014. The other trade partners have reduced the value of imports, but not to the degree, as well as, Russia.

Analysis of exports Ukraine shows dominant participation of Russia. However, the value of exports to Russia is decreasing since 2012 with the greatest decrease in 2015 from the 35%.

**Table 6 - The ten most important foreign trade partners of Ukraine to import and export from 2011 to 2015 (US Dollar)**

Import						
Partner countries	2011	2012	2013	2014	2015	%
Russian Federation	22.198.006	29.132.198	27.418.296	23.243.994	12.678.683	32
China	4.700.390	6.268.325	7.899.576	7.903.219	5.408.879	8.95
Germany	4.602.823	6.865.667	6.807.070	6.772.748	5.360.106	8.46
Belarus	2.567.589	4.211.750	5.068.567	3.605.256	3.971.111	5.40
Poland	2.788.802	3.183.387	3.567.072	4.074.125	3.067.345	4.64
United States of America	1.772.945	2.600.758	2.914.260	2.770.420	1.931.904	3.34
Italy	1.390.344	2.005.849	2.235.233	2.087.345	1.509.461	2.56
Hungary	1.214.631	1.326.707	1.159.534	1.400.578	1.463.888	1.83
Turkey	1.298.282	1.481.219	1.951.858	1.852.897	1.298.157	2.19
France	1.108.769	1.504.474	1.667.216	1.730.584	1.267.296	2.02
Export						
Partner countries	2011	2012	2013	2014	2015	%
Russian Federation	13.431.880	19.819.713	17.631.749	15.077.259	9.799.144	24.77
Turkey	3.026.601	3.748.622	3.685.113	3.805.541	3.561.436	5.83
Egypt	1.327.994	1.335.647	2.898.250	2.720.561	2.862.068	3.64
China	1.316.550	2.180.034	1.777.169	2.726.653	2.674.118	3.49
Poland	1.787.222	2.794.085	2.576.195	2.547.824	2.645.031	4.03
Italy	2.413.285	3.041.387	2.481.642	2.360.085	2.470.973	4.17
India	1.426.038	2.265.303	2.290.932	1.974.622	1.817.438	3.19
Belarus	1.899.198	1.922.320	2.251.119	1.983.697	1.617.139	3.16
Germany	1.499.469	1.763.907	1.644.879	1.603.740	1.590.570	2.65
Hungary	860.084	1.340.723	1.510.219	1.556.952	1.510.170	2.22

Source: The International Trade Centre database, <http://www.trademap.org/>

### ***1.3.Import/export as part of GDP***

Indicator import/export as part of GDP shows the level of openness/closeness of the economy or the sufficiency of domestic production and the need for imports. However, due to the performance of intra-industry trade, this indicator should be understood conditionally.

The world economy is faced with a decrease in GDP since 2009 and its amount was affected by the global financial and economic crisis (Eurostat, 2015). On this basis can be explained by the growth of imports as part of GDP.

Analysis of export as part of GDP shows that the largest part of production is exported Belorussia, Ukraine and Moldova. In other countries exported about 1/3 of domestic production.

The import value of GDP has the biggest share in Moldova, Belarus, Georgia and Ukraine. The biggest difference between the attitude of imports and exports as part of GDP occurs in Moldova and Georgia.

**Table 7 - Exports of goods and services (% of GDP)**

Countries	1990	2000	2007	2008	2009	2010	2011	2012	2013	2014	2015	x
Russian Federation	18.2	44.1	30.2	31.3	27.9	29.2	28.3	27.4	26.6	27.5	29.5	29
Ukraine	27.6	62.4	44.8	46.9	46.4	50.7	49.8	47.7	43.4	49.2	52.8	47
Armenia	35.0	23.4	19.2	15.0	15.5	20.8	23.8	27.6	28.4	28.5	29.7	24
Azerbaijan	43.9	39.0	68.1	65.8	51.6	54.3	56.4	53.7	48.7	43.3	37.8	51
Belarus	46.0	69.2	60.9	60.9	50.5	53.2	81.1	81.3	60.3	56.9	60.1	62
Georgia	40.0	23.0	31.2	28.6	29.7	35.0	36.2	38.2	44.7	42.9	45.0	36
Moldova	48.2	49.8	47.5	40.8	36.9	39.2	45.0	43.5	43.3	41.5	43.4	44
Serbia	-	9.9	28.4	29.1	26.8	32.9	34.0	36.9	41.2	43.4	47.7	33

Source: World Bank database, World Development Indicators

**Table 8 - Imports of goods and services (% of GDP)**

Countries	1990	2000	2007	2008	2009	2010	2011	2012	2013	2014	2015	x
Russian Federation	17.9	24.0	21.5	22.1	20.5	21.1	20.1	20.6	21.0	20.9	21.2	21
Ukraine	28.7	57.4	50.4	54.9	48.0	53.6	56.4	56.4	52.7	53.2	54.8	52
Armenia	46.3	50.5	39.2	40.7	43.0	45.3	47.4	48.4	48.2	46.9	41.3	45
Azerbaijan	39.2	38.4	28.5	23.5	23.1	20.7	24.1	25.6	26.9	26.2	34.8	28
Belarus	43.6	72.4	67.2	68.7	61.8	66.9	82.2	76.7	63.5	57.7	59.1	65
Georgia	45.3	39.7	58.0	58.4	48.9	52.8	54.8	57.8	57.6	60.5	64.9	54
Moldova	50.6	75.4	97.1	93.6	73.5	78.5	85.8	83.9	80.6	78.5	73.7	79
Serbia	-	14.3	52.7	54.1	42.7	47.9	49.4	53.6	51.9	54.2	57.4	40

Source: World Bank database, World Development Indicators

## 2. Role of the Eastern Partnership in contemporary foreign trade

Key strengths of the Eastern Partnership are reflected in the abolition of tariffs and quotas what will lead to a general liberalization of foreign trade and the realization the free movement of goods. DCFTA-Free Trade Agreement EU and Ukraine signed on 27 June 2014 in the framework of the Association Agreement (AA) EU and Ukraine. According to the Agreement states are obliged to: the progressive elimination of tariffs and quotas and harmonization of Ukrainian legislation and standards in the various sectors with that of the EU. Agreement provisionally entered into force on 01 January

2015. Customs tariffs on imported products in Russia amounted to 6.8%, in Ukraine (4.3%), Armenia (4.6%), Azerbaijan (8.5%) and Belarus (6.3%).

Opportunities of the Eastern Partnership will increasingly contribute to faster economic and commercial development of the member states as they can on the basis of multilateral trade agreements and trilateral talks to bring about the growth of foreign trade and improving economic indicators.

Weaknesses include sub-blocks in partnership, sanctions, failure to comply with the agreement and lack of interest for further EU expansion. Threats related to the impact of the political crisis, the unstable political environment and embargo to carry out economic and trade policy.

Through the further development of foreign trade in the framework of the Eastern Partnership, as well as the attitude of countries towards Russia and the EU, it is necessary to minimize the impact of weaknesses and threats to carry out economic and trade policy.

**SWOT analysis**

Strengths	Weaknesses
The abolition of tariffs and quotas The liberalization of foreign trade Increase in foreign trade	Sub-blocks in partnership Sanctions Failure to comply with the agreement
Opportunities	Threats
Multilateral trade agreements The growth of macroeconomic indicators Enlargement EU	Economic crisis The unstable political environment Import ban (embargo)

Source: author's representation

Using cost-benefit analysis in terms of the assessment of damages and benefits for Russia, Ukraine and the EU shows that all countries have common damage: the reduction of imports, exports and rate of GDP. Dominant participation of Russia as a partner for foreign trade relations with Ukraine will require finding alternative markets or strengthen other trade partners.

Analysis of trade between trading partners shows the unequal importance of foreign trade for mutual market participants in the exchange. In addition, changes in economic and political situation between the partner countries are not affected in the same intensity to all participants in the exchange.

Terms of trade which are the gains for Russian Federation are achieved with Azerbaijan and Georgia. Ukraine achieved more favorable terms of trade of Russia with a greater number of countries, particularly with Azerbaijan, Moldova and Belarus.

Other member countries of the Eastern Partnership mostly were realized higher exports than imports.

**Table 9 – Relationship exchanges as indicators of losses on the foreign market (2011-2015)**

Countries	Russian Federation	Ukraine	Armenia	Azerbaijan	Belarus	Georgia	Moldova	Serbia
Russian Federation								
Ukraine	0.79							
Armenia	0.59	0.85						
Azerbaijan	1.62	1.40	6.79					
Belarus	0.94	1.02	0.86	1.17				
Georgia	1.27	0.91	1.68	2.16	1.01			
Moldova	0.82	1.36	1	0.98	1.23	2.35		
Serbia	0.43	0.87	0.53	2.53	0.95	1.19	0.2	

Source: author's representation using The International Trade Centre database

The benefits of foreign trade are related to the emergence of new trading partners, reducing import rate and shortening the time required to perform the import operations.

### 3. Serbia's position in relations with the EU and Russia

Serbia has signed the Stabilization and Association Agreement (2011) which is committed to the reform and harmonization of foreign policy with the provisions of the EU. Foreign political activity is based on: the joint interests of member states and joint value framework the EU.

Serbia has increased in 2015 its trade integration with the EU. The EU has increased its trade with Serbia so that is the main trading partner of the country, which accounts for 69% of total exports and 61% of total imports of goods. The EU is also a major source of foreign direct investment for a share of three quarters (European Commission, 2015).

EU in 2015 published a total of 40 declarations which called on third countries to the harmonization of which ten declarations related to Ukraine or Russia. Serbia has not complied with any of these ten declarations (policy of non-interference in connection with the conflict in Ukraine and to the sanctions for Russia). Specific position of Serbia towards Russia can be the contribution of the EU. Serbia's participation in the military parade marking the 70th anniversary of victory over fascism in World War II in May 2015 caused a negative reaction of the EU. Also, the EU was against the joint military exercises Serbia, Russia and Belarus in September the 2015. Serbia should act in accordance with their obligations under the EU accession process.

## **Conclusion**

Questioning reconceptualization of the Eastern Partnership is topical in modern conditions, especially having in mind the relations of Ukraine and Russia, Russia and the EU, Serbia towards Russia and the EU.

Currently, estimate that more than the number of claims benefit from those relations in any event affected the achieved mutual partnership and bilateral and multilateral relations. In the coming years can expect a greater number of sub-blocks of the EU sanctions and against sanctions Russia to EU countries, as well as, the requirements for Serbia to take a clear stance towards Russia, that the fulfillment of the obligations related to joining the EU.

Failure to relations between the partners within the framework of foreign trade agreements will affect the continued reduction in the volume of foreign trade and opening new markets.

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## CONVERGENCE BETWEEN A NEW EU ECONOMIC DIPLOMACY AND INTERNATIONAL BUSINESS STRATEGIES

Nicoleta VASILCOVSCHI\*

**Abstract:** *Economic diplomacy is known as a symbol of the European Union and represents its primary function. With the development of science and new ways of communication, the European Union can organize a new approach for its economic diplomacy. The main advantage of the European Union as a soft power is that its economic and diplomatic interests are represented in a manner that is based not on confrontation but economic collaboration with other states. The disadvantage is that this domain is presently not used enough to represent EU interests. This paper describes economic diplomacy in general and the economic diplomacy of the EU in particular. Divided into three parts, the goal of this study is to outline the importance of economic diplomacy, its evolution, the influence of this domain on the creation of previous economic treaties, and its possible future impact on the development of new agreements between the European Union and its neighbour countries. The main methodology used is descriptive, presenting the evolution of this field and the new business strategies that can be used to improve cooperation at the eastern border of the European Union. Therefore here are presented the historical background of EU Economic diplomacy, its present issues and future challenges. The quantitative data used in this research paper are based on information from the EU website and on the actual events concerning debates about economic diplomacy and its future. The research questions presented herein follow the general evolution of this domain and its mutual influence with EU's businesses strategies.*

**Keywords:** economic diplomacy; business strategies; business diplomacy; European Union

**JEL Classification:** F5; Z00

### Introduction

Economic interests and the emergence of new markets challenge countries to comport their economic diplomacies with new business strategies and develop novel areas of collaboration. The European External Action Service represents the European Union's external diplomacy as a whole, but the European Union's economic diplomacy is represented separately in every state member of the EU (Vasilcovschi, 2013, p.187).

There is a need for the European Union to maintain strong economic diplomacy in order to represent across the world the interests of its member states. In order to understand how this domain will develop in the future and influence the Eastern Partnership of the European Union, one must first appreciate why the EU's economic diplomacy needs to be more active and practical while also

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understanding the role of European Union treaties which promote EU diplomacy and its economic interests. Therefore, a description of the European Union Diplomatic Service will be followed by details regarding its economic diplomacy structure and impact.

Unfortunately, the European Union's economic diplomacy is not analysed and promoted enough in academic research. Economic diplomacy is never listed among the best promoted areas of academic research at the European Union level, yet this domain is more important for promoting the economic interests of European Union than other domains that receive more recognition in the European community's research and development. On the other hand, businesses have their own promotion inside or outside the European Union. Therefore it is important to promote the interests of economic diplomacy with better-organized business strategies.

If the European Union is interested in maintaining its dominant position in international trade, it can only be possible if economic diplomacy is combined and promoted with new business strategies of European firms and firms from other continents.

Additionally, sometimes economic diplomacy has influenced the creation and evolution of European treaties. According to Woolcock the external trade illustrates how the EU Economic Diplomacy has evolved over time with progressive increase in the scope of EC/EU external trade policy, a trend that is formalized by the extension of the EU exclusive competence to all major trade issues and foreign direct investment in the Treaty of Lisbon (Woolcock, 2012, p.12).

The advantages of European treaties include the fact that they are the EU's constitutional basis and every state signatory must follow their procedures.

So, economic diplomacy has long played a critical role in the evolution of several EU treaties and, resultantly, the EU itself. Another important fact of the EU's economic diplomacy is its future impact on the geo-strategic partnerships of the European Union. International conditions have changed in recent years. In the past, political interests and economic interests were more divergent. In the interconnected economies of the world today, more and more ties have begun to develop between economic and political interests, necessitating a convergence of the two in order to maintain a balance of commercial and political forces at the international level.

### **1. The importance of the EU's economic diplomacy and its evolution**

The primary novelty of new diplomacy is the inclusion of EU states promoting their own economic interests. The rise of globalization and the intensification of economic activities have made the European Union consolidate its diplomatic service in order to represent better its member states

at the international level while also cultivating new areas of collaboration with other countries around the world.

The organization and consolidation of the European Union's general diplomacy was organized at institutional level in 2009 with the creation of the European External Action Service. Upon inception of the Treaty of Lisbon, this function of the European Union was created with the role of officially representing the external policy of the European Union. Member states of the European Union contribute to the development of this goal and the abilities of the department overall in order to represent globally European Union interests. However, even if economic interests are the core of the European Union, there is not yet a unique representative department of the European Union's economic diplomacy but, rather, a situation in which every member state has its own arm for economic diplomacy. Therefore, if we speak about the evolution of economic diplomacy in the European Union, we must sum the interests of its twenty-eight member states in order to find common economic interests and then derive an appropriate plan of action for the European Union altogether.

In order to consolidate the future of its economic diplomacy, especially after Brexit event, it is the moment for the European Union to promote more research and development in this domain as well as the activity of local businesses abroad. It can also use new business strategies to compete at the international level in order to maintain its dominant position in international commerce. This measure can attract more consumers if, for example, a perfectly competitive market structure like pure competition will adopt the European example concerning agriculture and bio products. Worldwide consumption is adapted to modern demand, and so European Union products can be promoted more in Asia – especially in China, where consumption has boomed in the last ten years. According to Yves Buchet de Neuilly, the goal of EU external policy is to promote internal cooperation while also developing external economic relations through diplomatic representation (Buchet de Neuilly, 2005.p.5).

The most recent debates on economic diplomacy of European Union were held in Brussels in February 2016. The discussion demonstrated the importance of this domain for the modern economy of the European Union and its sustainable development (European Commission, 2016).

Although the discussion in the Brussels meeting presented the general goals of economic diplomacy, these discussions remain too broad and their conclusions should concentrate more on economic and diplomatic research for the coming years. This issue is why the key research question of this paper is to discover whether the European Union can create a new economic diplomacy based on a stronger connection between business strategies at the community level and the goals of EU diplomacy. The promotion of its economic diplomacy ought not to be only through general

representation of member states but also through European companies which can expand at the international level while simultaneously representing the EU's economic goals. In all, the EU should create a research platform in the field of economic diplomacy in order to give a forum to diplomats, scholars, and business practitioners in which to interact and share their ideas.

## **2. Main European treaties and their goals**

Two treaties at the core of the European Union are The Treaty on the Functioning of European Union, signed in Rome in 1958 which established the European Economic Community, and The Treaty on European Union, signed in Maastricht in 1992. These two agreements form the basis of the European Union's structure, thereby influencing the creation of other treaties between the EU and its member states. From the beginning, the European Union started as an economic community representing the economic interests of its member states. Therefore, from its inception one of the EU's primary functions has been the promotion of economic diplomacy.

The major advantage of economic diplomacy is that member states can benefit from their collaboration within the European Community. For example, the first three European Communities – the European Atomic Energy Community (EURATOM), the European Coal and Steel Community (ECSC), and the European Economic Community (EEC) – had their roots in economic diplomacy goals and European business strategies. The ECSC expired in 2002 but EURATOM and the EEC are still in force today. Also, another treaty which had its basis in economic diplomacy is The First Budgetary Treaty (Luxembourg) and The Second Budgetary Treaty (Brussels), both of which remain in force. The main goals of the EU as a member of the World Trade Organization (WTO) are: the opening of new markets for European firms, the requirement that firms follow fair competition rules, and the promotion of sustainable development of trade<sup>24</sup>.

One important sector of EU with high costs but also an increase in its production is agriculture. On May 23, 1992, the EU reformed its Common Agricultural Policy (CAP) so that – in accordance with 1999's "Agenda 2000" reforms – it was divided into two sections: market support and rural development. Dacian Ciolos considers that the CAP has to keep these two pillars of the agreement but must also adapt to the challenges of an increasingly interconnected world through sustainable production in order to ensure global food security, more research and development, sustainable management of natural resources, market management instruments, sustainable and inclusive growth

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24 for more details see: [http://ec.europa.eu/trade/policy/eu-and-wto/index\\_en.htm](http://ec.europa.eu/trade/policy/eu-and-wto/index_en.htm)

in rural areas, and shared experience in rural development<sup>25</sup>. First of all, a modern agriculture can increase EU production and can also attract foreign investment and opportunities for the creation of small-to-medium companies. Secondly, the consumption of bio products can increase the demand for these goods and, in turn, will create opportunities for more European firms to be in the market and thirdly, this sector can contribute to the improvement of economic diplomacy strategies and their effect worldwide. For example, “In ten years, the total (fully converted and in-conversion organic area) would have increased from 5.7 million ha to an estimated 9.6 million ha (+6% per year) for the EU-27” (European Commission, 2013).

Member states of the EU are realizing that, without strong economic diplomacy, it will be difficult to compete in the global market. In this context of “new growth paradigm”, EU has to develop a strategy including main economic, politic and business objectives of its member states.

One first step is to create free trade and investment agreements, followed by unilateral economic or trade measures, economic sanctions. Another step is to enforce the impact from EU for the international development programs (Business Europe, 2016).

Using the function of economic diplomacy to promote open door diplomacy and its economic interests domestically and abroad, the EU community gives the opportunity to its members to enjoy access to new markets, provide a platform for sustainable economic development, and ensure food security.

### **3. A theoretical approach on the convergence between EU businesses and economic diplomacy for the future of EU Eastern Partnership**

International stability is the question that is central to future of the European Union Eastern Partnership. Unlike in the past, when technological and scientific advances started to blossom, today’s emphasis on consumption and speed has changed the lifestyle of many Europeans. Economic diplomacy must be adapted to the new business strategies of European firms.

A business strategy represents a plan designed for the long term in order to achieve a central goal or a set of objectives. Business diplomacy is the representation of the company and its subsidiaries worldwide. Managers coordinate business diplomacy through the organization of strategies and goals, the use of bilateral and multilateral negotiations, the creation of international

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<sup>25</sup> For more details see: [http://europa.eu/rapid/press-release\\_SPEECH-10-400\\_en.htm?locale=en](http://europa.eu/rapid/press-release_SPEECH-10-400_en.htm?locale=en)

public relations campaigns (Saner *et al.*, 2000), and the collection and analysis of economic data about the host country's economic situation and investment perspectives.

Presently, businesses do not have to bear as much pressure in their production process as in the past. Some new rules and policies should be implemented to solve management problems and adapt business strategies to the vision of Europe's economic diplomacy.

The Eastern Partnership (EaP) represents a collaboration between EU and its states members and six Eastern European countries: Republic of Moldova, Ukraine, Georgia, Republic of Belarus, Republic of Azerbaijan and Republic of Armenia.

The partnership includes different international values from the principles of international law to support for the development of a market economy.

The Joint Declaration of the Eastern Partnership Summit (Riga, 21-22 May 2015) sketches also the main values of economic cooperation between EU and its six Eastern states partners, insisting on the improvement of macroeconomic stability and the business environment, also on the promotion of trade, growth and competitiveness. This being the main goals to be achieved in order to maintain security, stability and economic development in EU and in the Eastern countries neighbours<sup>26</sup>.

Having been influenced by the trend of economic diplomacies of its member states, European economic diplomacy maintaining its unique structure according to the economic development of EU members, can influence the development of economic partnership for EaP member countries.

Not only that, important changes in EU economic diplomacy will keep a stable environment for business in the European community. Also, the promotion of European business strategies worldwide may have the highest impact in providing more information regarding the development of the purely competitive market structure of agriculture, monopolistic competitive market structure, oligopolistic market structure, or monopolistic market structure in different industries and areas of the world.

All these economic changes may influence positively the political stability of Europe in the coming years. Therefore, the use of business strategies not only to promote European businesses abroad but also to create new opportunities for European Union partnerships is a central axis of future development for the European Union Eastern and its international partnership.

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<sup>26</sup> Joint Declaration of Eastern Partnership Summit (2015) available at: [http://eeas.europa.eu/eastern/docs/riga-declaration-220515-final\\_en.pdf](http://eeas.europa.eu/eastern/docs/riga-declaration-220515-final_en.pdf).

## Conclusions

The European Union was, is, and maybe will continue to be a group of countries with common economic goals whose soft power can be heightened further with a diverse application of business strategies. The emergence of new economies on the international level represents a challenge for the European Union. Therefore, a stronger correlation between economic diplomacy and business strategy can maintain the political and economic stability of the EU and can improve the collaboration between the EU and other countries across the world. The EU has strong economic diplomacy and, by using a mix between its economic diplomacy and the business diplomacy of European companies, it can increase its export of a variety of products including organic goods.

There is a need for the EU to encourage more research in the realm of economic diplomacy. By learning more in this field, the experts of the future will have a better understanding of it and will be up to date with new developments in business strategy. So, the popularity of economic diplomacy can help cultivate new areas of research in this field – which should promote greater transparency – and also can increase access for non-member countries in the European business environment.

With the use of its economic diplomacy function to create both diplomatic and economic opportunities, the EU gives its member states and their businesses the chance to share their experience and strategies with non-member states. Also there is the opportunity for the companies from these states to compete and collaborate in the global market while also creating a sustainable partnership for the business strategies of the future.

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