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Making sense of the (post-)Brexit EU: security, stability and the future of EU's collective security

Alexandru-Constantin APETROE*

Abstract

This paper will address the situation of the European Union following the 2016 Brexit referendum. Enveloping the debates surrounding the European Union's collective security and the role of NATO in the post 9/11 world, Brexit opened the door for a serious discussion on the transatlantic partnership of the European Union with the United States, in particular after the 2016 Presidential Election. British reluctance on European integration and their "special relationship" with the United States have always been seen as an element which hindered Europe to reach its full potential as a global actor. Brexit, if carefully and pragmatically assessed, can signify an opportunity for the European Union to behave in a more cohesive manner on ensuring its collective security, either in the form of a European Common Defence Programme, or in the form of a reformed/reimagined NATO.

Keywords: Brexit, EU, PESCO, NATO, collective security

Introduction

The result of the 2016 Brexit referendum was quite the blow for the European Union. The immediate impact on the monetary ratings of some of the EU's financial and economic powerhouses (France and Germany) gave rise a "situation of uncertainty" (Belke *et al.*, 2018) thought capable of generating negative consequences in the financial sector. This impacted the EU as a whole since Brexit happened after other crises (Verhofstadt, 2016, p. 75) – the 2009 Financial crisis, the 2013 Eurozone crisis, the 2015 Migration crisis. Needless to say, at the supra-national level it was also a severe blow to the morale and the prestige of the EU as a global actor, and at the national level, it also impacted some member states before important electoral seasons (again France and Germany in particular). On the British side, the Brexit referendum result came down as a lightning. Due to the mainstream British and European politicians' disbelief in the success of the Leave camp in the referendum (McGowan, 2018, p. 68), the strong effects of Brexit on British politics cannot be denied. It is also noteworthy to mention the schizophrenia of British politics pertaining EU membership: the

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distaste shown by certain Labour MP's and the radicalization on the Tories against the perceived overreach from Brussels did not happen overnight. This was the result of over two decades of constant friction between the Conservatives and Brussels, mainly due to the weakness of the Labour camp to fully commit in support of the European project (MacShane, 2015, p. 12). Moreover, in spite of the long awkwardness of Britain's EU membership (Buller, 1995, p. 33) the idea behind a successful Brexit was too absurd to be envisaged, being more akin to an irrational behaviour, rather than a carefully planned move, thus a withdrawal from the EU making no sense since Britain tried so hard to join back in the 70s. Nevertheless, few could have anticipated the impact of the Eurozone crisis, the Migration crisis and the rise of UKIP.

Still, the much-heralded Brexit apocalypse failed to happen, in part due to the prolonged plan to negotiate the UK's withdrawal, and in part due to the limited extent of which Britain was actually involved in the European project. In fact, things might not be as tragic and as calamitous as some might think. Article 50 of the Treaty on the European Union (Lisbon, 2007) triggered by Britain after the 2016 Referendum on the European Union, was put in place for a specific reason, meaning that (a) the limited possibility of a withdrawal at some point was, if not purposely envisaged as such, (b) the clear product of some preparation to mitigate a possible outcome or even a distinct possibility which might arise in the future. Therefore, even if Brexit was a shock to many pro-Europeans, it did not signify anything more than a deliberate and justified action by a sovereign people in full right to decide on matters of capital importance (such as the EU membership) in complete obedience to the applicable EU laws and regulations. Furthermore, financially speaking, the effects of Brexit on the EU market are being assessed by some as being "minuscule, if not irrelevant" (Ringe, 2018, p. 3).

With regards to the other effects of Brexit, we will inquire on the very important matter of collective security, represented by NATO, and possibly by PESCO. Ideally, the Alliance's security framework should be enough to ensure the security of its members, including the majority of EU member states. After the dissolution of the Warsaw Pact, NATO's *raison d'être* was seemingly no more. In this respect, in the 90s and the early 2000s, NATO became more oriented towards combating terrorism and, with some exceptions (Kosovo, Afghanistan), it was more and more dedicated to fulfil a peacekeeping role rather than integrate the defensive and offensive capabilities of nation-states towards combating large scale invasions and operations such as those envisaged during the apotheosis of the Cold War. The 2016 shift in American politics, in conjuncture with the seemingly bleak scenario for Brexit, represent another set of challenges for the EU. In this respect, the signals of instability which are being transmitted from Washington have forced the EU, or at least part of it, to act in quite different ways than others. More specific, disruption is bound to happen (Postelnicescu, 2016, p. 208), as some Central-East European member states (Poland and Hungary in particular) are

more favourable to a lesser integrated EU and weaker Brussels influence (Nič, 2016, p. 286) and which perceive the reformist Franco-German doublet as a threat to what remains of their sovereignty and national interests within the EU. As we have seen in the previous instances such as the UN General Assembly Resolution vote on Jerusalem (UN-GA, 21 December 2017) if a decision will be forced on Central-East Europe, we might see a support for the US rather than for the EU's common position, making it highly probable that the European Union will have to deal with yet another systemic crisis on its hands.

The first part of our paper will discuss the Brexit and its perceptions, from different standpoints (political, economic) of different actors. In the second part we will address the challenges to the transatlantic relationship after 2016, highlighting the importance of the political moves of the new US Administration and the disruptive effects of Brexit. The third part will try to prospect on the EU's actions and reactions for Brexit, by discussing various scenarios on NATO/PESCO and their consequences on EU's security. In our research we will use several resources: official documents and press releases, prospective studies and relevant academic sources. As such, our purpose is to assess and critically examine the modalities of how the ongoing Brexit negotiations are being managed, the gaps in perceptions surrounding Brexit, and the overall impact of dogmatic views on both sides of the Channel. Not lastly, this paper aims to identify the cooperation gaps between the EU and the UK, as well as concluding a set of policy proposals directed towards limiting the negative effects of Brexit on the greater issue of EU-NATO relationship and the security of the EU.

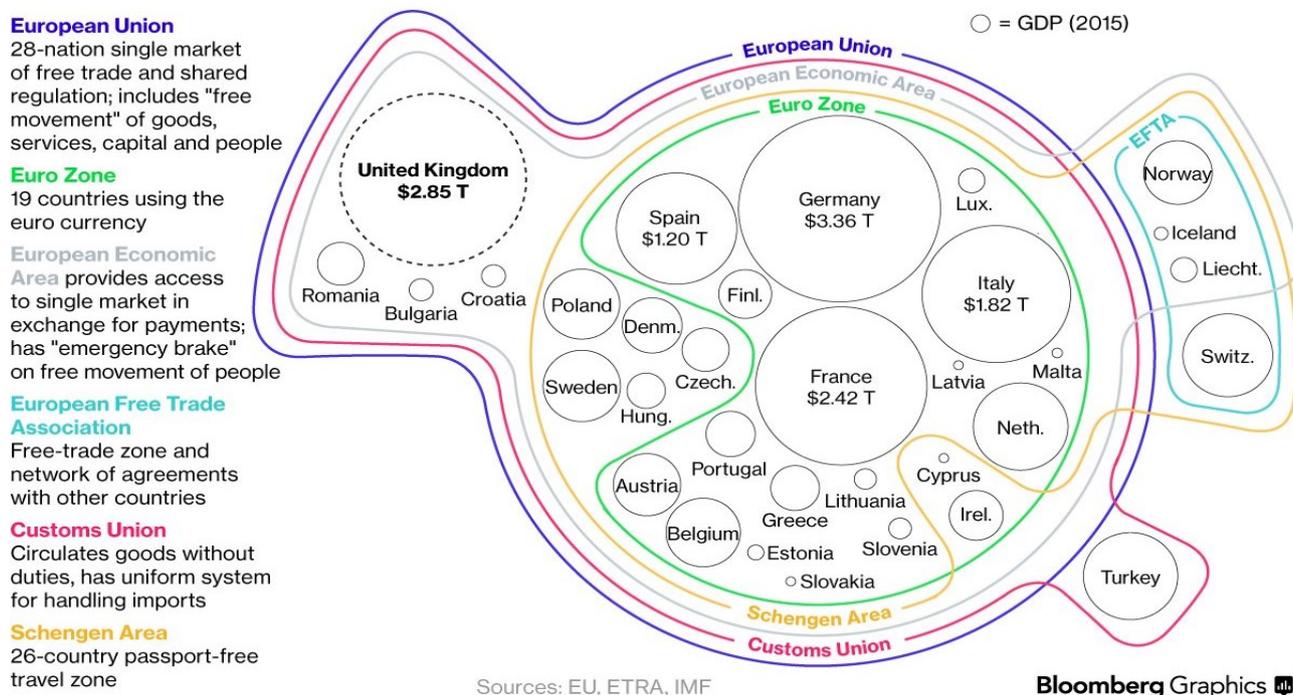
1. Trying to make sense of Brexit – which consequences?

In this first part of our paper, we will assume not to explain the Brexit, or to answer questions on “why Brexit happened?” or “why did the Brits vote for the Leave camp?”, but rather to understand the logic behind the consequences and the dynamic of the effects of the 2016 EU membership referendum. It is essential to keep in mind that, when discussing Brexit, we must first must strive to understand its subtleties and to try to avoid the apocalyptic and monochrome rhetoric which unfortunately has corrupted both the Leave vs. Remain debate in the UK, and the ensuing debates in Europe and abroad. To an extent, the main question which is still asked in a manicheistic manner, is the following: “is Brexit good, or is it bad”? As such, many scholars seem to fall into a logical pathway which is predetermined by their choice of standing on the matter (McEwen, 2016, p. 22; Bachmann and Sidaway, 2016, p. 47). In light of this, we are of the opinion that Brexit issue should not be detailed in such simplistic and binomial terms, as ultimately there is neither “good” nor “bad”, due to the fact that Brexit is a complex, ongoing event, which has not yet reached its most critical

phase (predicted for 2019-2020). Adding to this, we have also a debate on the facts which are fuelling the over-exaggerated fears of Brexit’s malign consequences (Parkes, 2016, p. 188), facts which don’t seem to add-up, and effects which cannot be fully assessed at the moment (Howorth and Schmidt, 2016, p. 10).

Shown below, we can observe the solitary place that Britain occupied before 2017 in the EU 28(-1) framework. This is a very good indicator of the level of British dis-integration within the EU’s main areas: the Eurozone and the Schengen space, notwithstanding the “emergency breaks” after the accession of the Central-East member states in 2004 and 2007. In a moment deserving of the epithet of ‘Kafkaesque’, Britain has been battling since 2016 to obtain “an accession in reverse” (Baker, 2017) coming after almost four decades after the joining the EU. In this respect, we can say, without any regrets or malice, that Britain did not understand neither the extent, nor the breadth of the European project (Schmitt and Loughran, 2017, p. 2). On the other hand, the EU itself was too busy trying to make the Union work, that it very much ignored the British demands for lesser integration. This resulted in a marginalized Britain which was bound to behave in the manner that it did (Pertusot, 2016, p. 135).

Figure 1. Britain’s place in the EU before Brexit (2015)



Source: Bloomberg, 2017

Furthermore, if we look at the history of Britain’s relationship with the EU (shown below) we cannot ignore certain important events linking the EU(EEC) and the UK, as well as their political

consequences/motivations. This is relevant since it shows that Britain resisted several times the tendencies of the EU to reform itself into a more coherent economic and political union.

Table 1. The history of Britain and the EU – “defining moments”

Year	Event	Obs.
1963	First and second British attempts to join the EU	French President Charles de Gaulle vetoes Britain's accession
1967	(EEC)	
1973	Britain (finally) joins the EU (EEC)	Britain immediately begins discussions for a renegotiation of its membership
1974	The Labour tries to renegotiate Britain's position in the EU	Labour promises a referendum for the following year
1975	First British referendum on EU membership: 66% for and 34% against	Tories campaign for the Remain camp Labour campaigns for the Leave camp
1979	Creation of the European Monetary System (EMS)	Britain's first opt-out
1983	Labour promotes leaving the EU (EEC)	Labour is defeated in general elections Tories campaign for EU membership
1986	The Single European Act is adopted Spain and Portugal join the EU (EEC)	Tories begin to develop Eurosceptic tendencies on EU enlargement
1988	PM Margaret Thatcher's famous Bruges speech	Tories start to favour a Eurosceptic tone Labour is becoming more Europhile
1992	Signing of the Treaty of Maastricht	The creation of European Union; Britain opts-out again
1997	British tests rule out joining the Euro	Britain is reluctant to join
2002	The adoption of the Euro currency	Britain opts-out yet again
2004	Twelve former communist states join the EU	Britain obtains a temporary opt-out from the Freedom of Movement
2007		
2008	Beginning of the Financial crisis The EU bails out several big banks	Eurosceptic tendencies begin to develop over financial motivations
2009	Signing of the Treaty of Lisbon	Article 50 is elaborated, theoretically permitting a withdrawal from the EU
2011	Adoption of the European Union Act	A referendum will be necessary for any further transfer of power to the EU
2013	The mounting of support for UKIP and large increase in Euroscepticism	British PM David Cameron promises a renegotiation and subsequent referendum
2016	PM Cameron fails to obtain a renegotiation and calls a referendum	Britain votes to leave the EU with 51.9% for and 48.1% against
2017	PM Theresa May triggers Article 50	A two-year planned withdrawal is in progress
2018	Ongoing negotiations; A transition phase is agreed until December 2020	Brexit deal needs a minimum 20 votes out of 27 on the EU Council
2019	Britain leaves the EU	Transition period in effect – Britain is bound to respect certain EU rulings

Source: European Union (2017) and Business Insider (2018)

One thing is certain about Brexit – that it brought instability where it was needed the least. Before trying to make sense of Brexit, it is important to understand that the UK never fully became a EU member as it chose to opt-out early on out of several important and defining European projects. Britain was reluctant to be a part of anything more than the EEC, and preferred the status quo before the Treaty of Maastricht (1992). In addition, the political scene in Britain changed quite a lot after

1992 (MacShane, 2015, p. 235), the change of roles between the Tories (early supporters of EU/EEC integration) and Labour (which was quite the Eurosceptic party at the time of Britain's accession), muddled the political waters and blurred the ideological lines, paved the way for the complete confiscation of the EU referendum theme by UKIP, event which started from the 2014 EU Parliamentary elections and which lead straight back to Westminster's doorstep (Glencross, 2016, p. 15).

Based on data alliable until May 2018, we will try and discuss several scenarios on Brexit and envisage some policy recommendations based on said scenarios. As such, on Brexit, we can discern between two categories of effects: the effects of Brexit per se; and the effects of the types of Brexit, ('hard' or 'soft' Brexit). This differentiation is relevant because they will help in assessing the situation and ensuring that all possible scenarios are given proper credit.

In the first category, we have the effects which loosely began from the day after the 2016 Referendum (24 June) and which continue to affect both the EU and Britain at least until the end of the transition period (2020). Moreover, we can further discern between the two sub-types of implications brought upon by Brexit: the short-term and the medium- to long-term consequences, as follows.

- The short-term consequences of Brexit revolve around the great instability brought upon by the result of the Referendum and later, by the formal triggering of Article 50 by PM Theresa May on 29 March 2017. Some immediate effects included violence and protests, the resignations of former PM David Cameron and former UKIP leader Nigel Farage, a petition for a second referendum, the British Pound recorded losing almost 8 percent reaching its lowest level since 2008 (Belam, 2016). After the triggering of Article 50 and the start of negotiations, things seemed to have returned to a relative calm, yet the uncertainty of Brexit proceedings still lingers.
- The medium to long-term consequences of Brexit are more difficult to assess, since they will contour upon the type of Brexit: 'hard' vs. 'soft'. Some very sensitive matters are on the table on the long run: the border issue between Northern Ireland (Britain) and Ireland (Berberi, 2017, p. 2), the repositioning of the UK on the international trade scene, the trade deal negotiations with the EU, the issue of EU regulations which were integrated by Westminster into Common law, the delicate matter of Scottish independence, the future of NATO and the role of Britain in EU security.

Subsequently, the second category has in mind the effects of the two imagined Brexit scenarios: the 'hard' Brexit and the 'soft' Brexit (Howorth and Schmidt, 2016, p. 8). Since both scenarios are amounting to virtually opposite endings for the UK-EU 'divorce', this also adds to the uncertainty created by Brexit itself.

- The 'hard' Brexit will be the conclusion of a so-called 'messy divorce' between Britain and the EU. If this happens, it will undoubtedly be unfavourable to both the EU and the UK, yet will more likely affect Britain more than it will affect the EU. Nevertheless, we still have to keep in mind the role played by the City of London on the EU financial scene, the reciprocally large number of expats living in Britain and in the EU respectively (MacShane, 2015, p. 40) and the issues concerning security and defence policies, all which will need to be adjusted in some way. Essentially a 'hard' Brexit will see Britain leave from the Customs Union and the Single Market and also leaving the jurisdiction of the European Court of Justice (Downer, 2018).
- The 'soft' Brexit implies a continued partnership between Britain and Europe, focused on maintaining a level of presence of the UK in European affairs in the form of pseudo-membership or "access to" (as opposed to full membership) the Single Market (Menon and Fowler, 2016, p. 10), and a mandatory trade-deal which will be negotiated after the transition period will end. But before this will take place, there is the very important aspect of the "overlooked Article 218 of the TFEU" (McGowan, 2018, p. 50) which in essence, is applicable once Article 50 has been triggered, and which will involve a voting procedure in the EU Council, with a minimum 20 out of the 27 votes. Also, a 'soft' Brexit will put Britain in a position of weakness (Wincott, 2017, p. 693), basically meaning that the whole referendum and Brexit conundrum will have been for nothing.

Since we are operating in uncharted territory, even the possibility of a less than 'soft' Brexit leads to even more confusion and disruption to businesses and the financial sector on both sides of the Channel. Recently though, there are more and more voices warning of the possibility of a 'hard' Brexit (Hamilton, 2018). As such, Brexit remains a very complicated and thorny issue, both politically and otherwise. But for who? The EU will most likely overcome the real shock of Brexit, yet Britain still has high hopes for the next decade, hopes which are dependent a lot on the manner which Brexit will be concluded. It will come as no surprise, but it seems that Britain rejected once again the better option for both itself and the EU – it wanted Brexit – and seems to prefer national pride to a reasonable deal which could support the UK's most vulnerable economic sectors from being further weakened.

2. Transatlantic relations after 2016 – from friendship to growing antagonism

After Brexit, a second element which has disturbed the already muddled political waters of the EU, was the shift in American politics and the election of Donald Trump. Before 2016, the relationship between Europe and the US has been, besides international trade, human rights and

shared values, was one of long-time cooperation and mutual security guarantees within the NATO Alliance. World War II was a crude awakening to the fact that another conflict in Europe will result in a catastrophe on an unprecedented scale of death and destruction. Yet keeping these in mind, after the 2016 Presidential Election, the new US Administration embarked on a campaign to re-negotiate any and all international agreements which the US was part of until that time, the deals with the EU and NATO making no exception. In this respect, Brexit opened a door on the debate on the role of the EU in the post-9/11 world, a world in which mainly the US initiated foreign expeditions to topple governments and export democracy, attempts which, if they did not fail, they undeniably had, and will continue to have, heavy consequences not only in the region, but globally. Some EU member states went along, others protested, but the majority of them, bound by their national agreements to NATO, participated in some way.

As such, discussing Brexit, EU and NATO, we consider the following. First, Brexit – if carefully and pragmatically assessed, can signify a opportunity, but more for the EU rather than for the UK. Europe has the chance to assert itself on the international scene, to behave in a more cohesive manner on ensuring collective security, either in the form of a stronger European Common Defence Programme, or in the shape of a reformed/reimagined NATO, both options having intrinsic advantages and disadvantages.

Second, the relationship between the EU and the US can now enter a much-desired pragmatic phase. From economic and environmental issues, to ensuring security and maintaining stability in troubled regions, the new US Administration has made it very clear that it wishes to renegotiate all previous existing agreements with its Allies, specifically with the EU, meaning that this is another opportunity for the EU to address the more challenging aspects (trade tariffs, the JCPOA, the status of Jerusalem to name a few) on the future of the Euro-Atlantic partnership.

Third, the so-called “special relationship” between Britain and the US also comes into play (Baylis, 1998, p. 117), as the new US Administration has other plans – it withdrew its support from a number of international commitments and undermined not only the UK’s position, but also that of other EU member states such as France and Germany. This is where a rift was revealed, between Brexit as a means to strengthen the UK on the international scene by “making Britain great again” and the American position which sees Brexit as more of a disruption rather than an opportunity to re-engage their bilateral relationship.

On the future of the transatlantic relation after Brexit, we discuss about “several key-factors” (Kaufmann and Lohaus, 2018, p. 18) which have shaped the relations between Europe and America, and which are the basis of the continued partnership between the two continents:

- Liberal transatlantic culture, is the main driver since the US and Europe maintained and nurtured common values and principles such as: human rights, individual freedoms, transparency in government and the rule of law.
- European capacity for collective action, represents another important aspect to consider. Notwithstanding the politics and the friction inside the EU, Europe has shown some progress towards a more cohesive integration policy, even if the EU still suffers from the aftershock of Brexit and the rise in Euroscepticism.
- Global order and security, makes for another crucial factor. From national interests and geopolitical drivers to international institutions and agreements, the global order is composed from those which support international law and those which try to circumvent it. This is why it is of paramount importance that some form of consensus must be agreed-upon so that the fragile balance between the actors of the international scene can not only be reached, but most importantly, maintained.
- Military technologies and the importance of the defence sector have been at the centre of the progress of humanity since Antiquity. However, the private sector has somewhat overstepped the military in creating technology and building the future. This is why the creation of a sphere where competition and technology-sharing will benefit not only the sectors involved, but also society itself.
- The combined military force of the Transatlantic Alliance was put to the test in many instances, but 9/11 was the only time when Article 5 of the NATO Charter was applied. Nevertheless, current political trends in Europe and in the United States are signalling a new stage for the EU-US relations, a pragmatic phase where the differences of opinion between the Americans and the Europeans will likely result in either light frictions or a stalemate for the short-term and in a gradual disengagement and polarization in the long run.

All of these elements combined do make a point for a continuing relationship in spite of political and membership differences, between three, rather than two international actors on the security and human rights issues (the EU, the US and the UK). However, the main aspect of the first half of 2018 seems to contradict this: the strained relationship between the EU member states and the US has reached an unparalleled low, with controversial moves in particular on several European-born projects (the JCPOA being the most visible example). As such the future of transatlantic relations are quite difficult to predict, nevertheless taking into consideration the abovementioned drivers, the authors (Kaufmann and Lohaus, 2018, p. 24) observe four scenarios on the matter of the EU-US relationship:

- The first scenario: “pick and choose” – centred on the decline of the EU, where we will see pragmatism at its best in international politics and a revival of Realpolitik and bilateral agreements.
- The second scenario: “Europe takes the wheel” – centred on the decline of American hegemony will see the EU having no choice but to try and take the lead. This is a valid scenario because since 2016, the new US Administration has changed both the tone and the rhetoric when dealing with its ‘European friends and allies’.
- The third scenario: “rally ‘round the flag” will signify a regression from internationalism towards isolationism, following the established “Trump model”, itself a reimagined version of the Monroe doctrine. The rise of populist and nationalist political models in Europe, even when falling short of placing overt controversial political figures in power, will nevertheless undermine the capacity of mainstream political parties to shape and model policies. The major campaign themes will still be about immigration and economic revival, but more focused on a histrionic view of the world.
- The fourth scenario: “rules for the future” will no doubt be focused on establishing a new regulatory system for the technological advances which seemed to have eluded policy-makers. From GMO’s to AI and crypto-currencies, the world has changed a lot in the past twenty years. One matter of immense importance concerns the privacy of millions of EU citizens which have seen their private data and personal details used not only in immoral transactions, but against themselves in the ensuing scandals of electoral manipulations and data harvesting for electoral purposes. One major and significant difference between Europe and the US is the increasing hostility towards big tech companies of the former and the laissez-faire position on regulations of the latter.

The future of the so-called “security bargain” (Hallams, 2013, p. 219) between the US and Europe, is being threatened not only by sharp words, but also by polarisation on the more pressing issues such as Iran or North Korea. In his first address before a NATO gathering, President Trump omitted to mention the famous Article 5 – which bounds all members to defend another in the case of aggression, the last time it was invoked was in the aftermath of the 9/11 attacks – provoking fears that the US will withdraw their support to the Alliance. In a recent turn of events, the arrival of the newly appointed US Secretary of State Mike Pompeo at the NATO headquarters, was seen by the NATO Secretary-General Jens Stoltenberg as being a “proof of President Trump’s renewed commitment to NATO” (Herszenhorn, 2018). But there was no insight into more pressing matters such the Iran nuclear deal, which is the most recent apple of discord out of many between European leaders and the US President. One eminent example is the 2 percent of GDP which all NATO member states must allocate to defence spending, at the moment only 5 out of 28 member states meet the 2

percent threshold: the US, the UK, Greece, Poland and Estonia. All of these actions are very likely to continue, meaning that the EU has to embark in a very long and strenuous journey.

3. Making sense of the EU's collective security: Brexit, NATO, PESCO

Security, or rather the imminent threat of danger, is a very powerful tool which helps bring together even the most reluctant and opposite sides. Following the 9/11 events and the terrorist attacks in 2004 and 2005, the perspective of European security was shifted towards combating terrorism, coupled with organized crime, as the main security threats to the EU: “security is the cornerstone of our freedom; fighting terrorism aims to protect fundamental rights: those to life, security and freedom”, said the then-EU Justice, Freedom and Security Commissioner (Frattini, 2005), as he presented to European citizens a vision of a “more centralized security policy within the European Union” (Meyer, 2016, p. 32). Following the expansion of the European Security and Neighbourhood Strategy, cooperation and co-integration of security and defence policies was not possible because of the reluctance of Britain to join, this apparent weakness being exploited by the EU competitors and by the US. Still, Britain still remains a member of NATO, and a very important member to boot. But in simple terms, NATO represents the aegis which defends Europe. As such, the issue with NATO and Brexit are more than just technical, they also involve several layers of political decisions and geostrategic moves. On the issue of the EU's security after Brexit, a recent study issued by the Rand Corporation highlighted a few important aspects to consider:

The immediate day-to-day impact of Brexit may be felt less keenly in defence than other policy areas, such as trade, market regulation or social policy. This reflects the continuing focus on the nation-state as the primary actor on defence matters, while international collaboration is predominantly at the intergovernmental rather than supranational level. Despite its ambitions and future plans, the EU is not yet a major defence player; in no small part, of course, due to the UK's strong opposition to past European initiatives that it felt might duplicate or impact NATO. (Black et al., 2017, p. 144).

In addition, according to a briefing paper issued by the Royal United Services Institute for Defence and Security Studies, starting from March 2019, “Brexit could impact European security in five areas” (Chalmers, 2018, p. 1), as follows:

- Britain will not be able to participate to the EU's foreign policy elaboration process;
- It will immediate impact the UK-EU defence and security relationship;

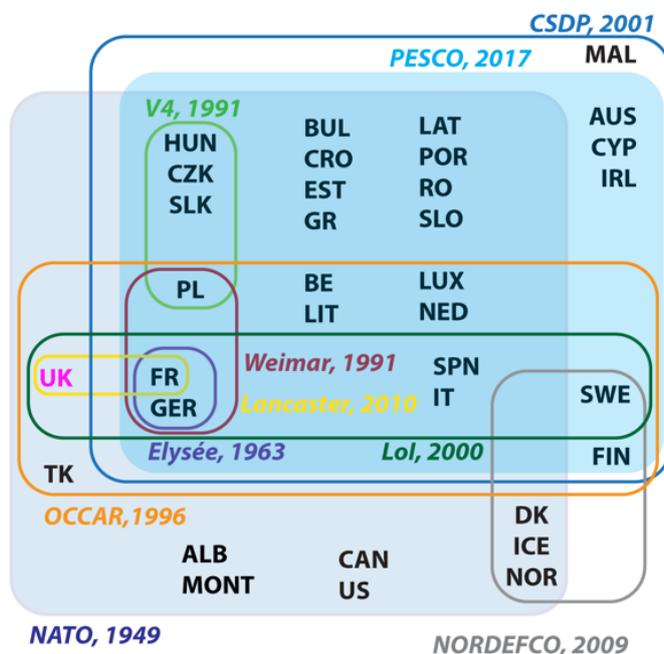
- The EU defence and security industry will be impacted by the departure of the UK, both from the Single Market and the Customs Union;
- The issues of cross-border cooperation in combating organised crime and antiterrorist operations will likewise be impacted;
- If a ‘hard’ Brexit happens, it will possibly inflame the delicate matter over the border between Northern Ireland and Ireland proper.

The withdrawal from the EU’s regional security affairs of Britain, when coupled with Brexit, will not signal the end of collaboration between the UK and EU member states. There are other, bilateral or minilateral agreements which the UK is a part of, however, the signal given by the UK to other EU member states and to the world for that matter, is not one of supporting global initiatives in the fields of security and defence. We must not forget that Britain, alongside France, still plays a very significant role in global collective security as a NATO founder member state, forming the “leadership of its inner core” (Matlár, 2014, p. 258). But as we can observe below, Britain refused to join the first EU-sponsored common defence project (CDSP, 2001), preferring to be engaged in multiple bilateral and multilateral military and defence alliances.

Figure 2. Transatlantic and European security and defence alliances

LEGEND

- 1. North Atlantic Treaty Organization (1949), 29 member states.**
- 2. Elysée Treaty (1963), 2 member states**
- 3. Visegrád Four (1991), 4 member states.**
- 4. Weimar Triangle (1991), 3 member states.**
- 5. Organisation for Joint Armament Cooperation (1996), 6 member states + 7 participating states**
- 6. The Letter of Intent (Lol) Framework Agreement (2000), 6 members**
- 7. Common Security and Defence Policy (2001), 26 member states**
- 8. Lancaster House Accord (2010), 2 member states**
- 9. Nordic Defence Cooperation (2009), 5 member states.**
- 10. Permanent Structured Cooperation (2017), 25 member states**



Source: own representation based on Faure, 2017

The issue between Brexit and NATO is somewhat more pressing than the economic aspects of Britain’s withdrawal from the EU. Following the fall of the Iron Curtain and the weakening of Russia, that NATO’s mandate has been shifting from the defence of the European homeland to a three-

dimensional engagement in global issues like terrorism, human rights abuses, military partnerships with fledgling democracies, energy security, nuclear proliferation and other similar events. When Russia under became more and more assertive in its foreign policy and started to become a larger-than-anticipated threat to the European and American interests in the region (Loftus and Kanet, 2017, p. 13). NATO tried to use this as an opportunity to revamp its rhetoric as it found a new purpose. However, not all NATO member states are concerned by Russian military threats, as only the Baltic and Eastern member states consider themselves 'threatened' by Russian expansion. We must not forget that the true crux of the geopolitical conundrum involving the US, the EU, NATO and Russia is, for the moment, stationed in and around Ukraine and in the Caucasus and the Black Sea region (Averre, 2016, p. 706). But the reasons for this are the more down-to-earth motives such as gas and oil revenues and supporting the fledgling rise of democratic governments in the region and the promotion of neoliberalism, rather than combatting the spectre of the Cold War and the glory of the former USSR.

One of the more systemic issues when talking about NATO is the unbalanced deployment of military power in Europe. There is great disproportion with regard to NATO's ongoing presence, evident by the military and matériel stationed in Western Europe (in UK, Spain, Italy, the Benelux and Germany in particular) when compared with those stationed in Central and Eastern Europe. Moreover, the same inconsistencies are present between the various parts of Eastern Europe itself – between the Baltic States and between some Central-East members (Rosen, 2016). This makes for a very uneven image, particularly when considering the defence spending discrepancies between Western and Central-East member states. The debate ranges on from the subject of unmet budgetary requirements to increase in military cooperation, force readiness and, most importantly, on the need to dissipate the image that NATO's problem in Europe is the result of the politically fragmented, and strategically incoherent European allies. This unbalanced distribution of NATO's capabilities gave rise to some questions especially with the events such as the Annexation of Crimea (2014) and the ongoing conflict in the Donbass region, and with the increased presence of Russian forces at the Eastern borders of the EU since 2009, such as the Zapad military exercises near the border with Poland (Johnson, 2017) – all stress the very different geopolitical risks and threats to NATO and EU member states. As such, the purpose of NATO has been both advertised and scrutinised, as being something more than a defensive alliance (Webber *et al.*, 2012, p. 3) particularly when observing the interventions and their consequences in Kosovo (1999), Afghanistan (2003), Somalia (2009) and the controversial involvement in Libya (2011) (Song, 2016, p. 123). To this day, NATO has evolved from being only a defence alliance. From the US perspective "NATO is primarily described as a military, political and cultural tool" (Pettersson, 2015, p. 9), meaning that a distinction between the

three cannot be made with ease. Even if it adds to the overall image and prestige of the organization, “it is almost impossible to draw distinct lines between what is military, political, and cultural”.

All these inconsistencies on the part of NATO gave rise to the political will to envisage an alternative. A direct successor of CSDP (2001), PESCO came into effect after two important events: Brexit and the weakening of US support for NATO. In addition, the issues surrounding Russian meddling in elections and the obvious support given by the Kremlin to Eurosceptic and Nationalist leaders within the EU have made a convincing statement in favour of the establishment of a means to counter Kremlin’s hybrid tactics (Polyakova, 2016). However, as it stands today, PESCO is more of a shadow of another shadow of NATO – it cannot singlehandedly ensure EU’s security and it does not help the US-EU relationship either. Moreover, on the short-term, Europe’s security cannot be envisaged in a rational manner, neither without the backing of the US nor without the support of the UK. The US has by far the most powerful military in the world and boasts an impressive presence in Western Europe. The UK is traditionally one of the five Permanent Members of the UN Security Council and possesses, after France, the most powerful military within the Europe (Global Firepower, 2018). PESCO cannot become more than it is – a project created more for and from political reasons rather than concrete security ones. It is because of this that, for the moment, it is NATO, not PESCO, which is defending Europe. Even if the policies of the US on global matters are becoming more and more inconsistent, and even if Britain will renounce the Customs Union in a ‘hard’ Brexit, we must not forget that both the UK and the US make for a significant part of NATO, both militarily and politically.

Furthermore, all is not all so quiet within the EU, particularly since the 2015 Migration crisis. The so called “East-West” divide within the EU was revealed and accelerated by the eurosceptic and illiberal leaders of Central and Eastern Europe (Duro, 2017). However, as the euphoria of accession makes way to the hardships of integration we can observe that the EU is not as unified as some might argue or believe (Bustikova and Guasti, 2017, p. 167). Notwithstanding eurosceptic and nationalist views on the European project, the official positions on matters of importance in the EU are mainly grouped in two categories: the reformists (France, Germany and others) and the reductionists (the Visegrád group). A third group is also present, the undecided (Romania, Bulgaria, Croatia and others) will most likely make their choice by simultaneously negotiating with the two main groups. Also, we must also remember that NATO came before the EU for many Central and Eastern Europe states. The emotional impact of relinquishing the symbol which marked their exit from Communism cannot be underestimated (Lašas, 2010, p. 148).

Brexit will no doubt have an effect on the level of cooperation between the EU member states and the UK, even entailing some difficulties in coordination and rapid deployment because of the

withdrawal from the Customs Union. Brexit might also impact NATO's image and larger mission. Because the purpose of NATO has changed drastically with the dissolution of the USSR and the dismissal of the Warsaw Pact, the Alliance was forced to adapt to new threats and overcome the hurdles which seemed to arise at every corner (da Mota, 2018, p. 148). Both Britain and the US were the key actors in this transformation of NATO. In truth, NATO is something more than a defensive alliance: it represents both a common security framework, and a political club – and was for a time – even a prerequisite for EU accession (Schimmelfennig, 1998, pp. 1-2). It also draws on the traditional link between US and its Allies, as a form of direct heritage dating back to the Allies of the Second World War. This is why Britain's role in the EU was far more than a simple member state with limited integration. Because of the blurred lines between EU membership and NATO membership, and because of the reluctance of the British to fully commit to the so-called 'ever closer union', Brexit does not only affect the involved parties, it spills over into adjacent domains such as collective security, which as we clearly know, are not managed solely by the EU.

Conclusions

In the course of our paper we tried to argue that even if Brexit's biggest effect was indeed the air of instability on the EU, it should not be viewed in such a bleak perspective. First, the UK was not as integrated in the EU as other member states, even if the a 'hard' Brexit will come to pass, it will not impact the EU in such a way that it will disintegrate it. Second, Brexit's most intrinsic quality is that of a catalyst for change, it provides the EU with a very unique opportunity to have a very committed debate on the future of EU integration and on the role that common security has for the Union. Third, the short-term economic consequences of Brexit have been exaggerated, neither the EU nor the UK were impacted financially in such a grievous way as some preached. However, on the medium- to long-run, we may observe a contraction of the UK's economy in the case of 'hard' Brexit. Fourth, Brexit we believe, should be viewed in relative terms – it imposed change on the EU and on Britain, yet the window of opportunity will not be open for long. The EU has already pushed forward with some reforms, yet Britain is embroiled in political civil war between Labour and Tories, leaving it unable to fully commit to negotiations and to try and prepare alternative plans to see Brexit through. With regards to the issue of the transatlantic relationship, there is no unique scenario which can be accurately envisaged. Nevertheless, some aspects highlighted do have the capacity of becoming reality, such as the gradual withdrawal of the US from conflict areas, the inflammatory rhetoric on immigration and the US' obsession with 'just trade' being only a few. The future of EU-

US relations will be undoubtedly marked by their diverging opinions on the larger geopolitical issues such as the Iran nuclear deal, Russia and the NATO/PESCO debate.

On the EU's role in all of this, we must say that the EU's greatest strength is that its operating in crisis management mode for over a decade now. The impact of populist and nationalistic rhetoric on public policy and the weakening of mainstream parties can no longer be denied. Europe has seen more change in the past years than it saw in decades. However, the EU has its own issues with regards to the illiberal and less-than-democratic tendencies growing in Central and Eastern Europe, the slowing-down of the integration process and the ultimate battle on EU reform of the between the core and the periphery. On the impact which Brexit had on EU's security, it is essential to understand that the Brexit, in whichever format will be implemented, must not dictate the EU-UK relationship, particularly in such areas of paramount importance as security, defence and antiterrorist cooperation. We might see that at the end of the day, Europe and Britain will come to see beyond their past differences, and recognise that we share similar values and that we adhere to the same principles. Discussing PESCO, we must keep in mind that it took three attempts to integrate EU's structures into a permanent framework. Also, one of the most valid concerns about the 'EU Army' is that there it could impact NATO by becoming a parallel defence mechanism. If in the future, the EU will have to make a decision between NATO and PESCO, the more rational choice will be to integrate PESCO into NATO, under the condition that the EU will have a larger impact on the Alliance's decision-making process. Any other 'extreme' option will be quite challenging to envisage without a very serious event which would destabilise the Transatlantic partnership.

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European Union and Central Asia – past directions and future perspectives

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Abstract

In 2007, the European Union launched a targeted Strategy for Central Asia, as a continuation of the efforts to improve the relations with the five post-soviet republics. The adoption in 2019 of a new EU Strategy for Central Asia offers the opportunity to include in the new strategic framework the lessons learned during the past decade of promoting the EU influence in the region, besides promoting measures to strengthen EU's global posture. The aim of this paper is to evaluate the capacity of the EU to mobilise resources for its foreign policy goals, specifically in relation with Central Asia. In examining this idea, I will use the framework offered by the neoclassical realist theory, mainly because in relation to some foreign policy objectives, the EU can be assimilated to a state.

Keywords: Strategy of the European Union for Central Asia, neoclassical realism, foreign policy implementation, resource extractive state

Introduction

In the last years, the European Union (EU) faced considerable challenges, both internally and externally, all of which required common efforts to be tackled. A result of such endeavours was the adoption of a new strategy for the EU foreign and security policy, *Shared vision, common action: A stronger Europe* (2016). In her Foreword, the High Representative for Foreign Affairs and Security Policy, stressed the changing nature of the international system in which the EU has to act, pointing to the capacity it possesses as a united actor, with a global perspective (Foreword, 2016, p. 4). The idea of accomplishing its global aim was put forward also in the European Security Strategy from 2003, which pointed that „An active and capable EU would make an impact on a global scale” (European Security Strategy, 2003, p. 15).

One of the main challenges remained the power struggle with the Russian Federation in the common neighbourhood, beyond the Eastern Partnership countries and reaching also the five Central Asian republics: Kazakhstan, Uzbekistan, Turkmenistan, Tajikistan and Kyrgyzstan. In 2007, the EU launched a Strategy for a new Partnership with Central Asia, an initiative aimed at redefining the

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relations with the five post-soviet republics, in the context of a renewed interest in the region's potential. The partnership envisioned cooperation in various sectors, ranging from policy and rule of law to human rights, education, economy and energy.

More than a decade later, the distribution of power in the international system has shifted, Central Asia being a region where major actors are interested to play. We are currently witnessing the growing Chinese influence and the Russian quest for maintaining its privileged role in the region, together with the security presence of the United States (Cooley, 2012, p. 4).

In this context, Brussels is drafting a new Strategy for Central Asia, which will be presented in 2019. The negotiation of a new Multiannual Financial Framework, with the objective of implementing projects in a flexible manner and more result-oriented, as well as the whole wave of reform in the EU are creating the premises for a more nuanced presence of the EU as a coherent actor in Central Asia.

The aim of this research paper is to evaluate the EU's capacity to mobilise resources for its foreign policy goals, specifically in relation with Central Asia. In examining this idea, I will use the framework offered by the neoclassical realist theory, mainly because the international system is dominated by anarchy, which triggers a perpetual balance of power. Furthermore, I consider that in some respects, in particular the relations with Central Asia, the EU acts in a similar manner to a state, by adopting a common framework of action, within which bilateral cooperation is also possible, especially because the region is not situated in the immediate proximity of the EU and can determine the global impact of Brussels. Considering the fact that in the region there are already some of the great powers at play, we can assume that the EU member states cannot rationally compete with them at national level.

The neoclassical realist theory provides a complementary perspective to the EU foreign policy, dominated by constructivist approaches and neglecting the realist perspective. The paper discusses the neoclassical realist theory, attempting at applying this framework to the EU. The international power dynamics is reflected in the current state of the Central Asia and the post-independence trajectory of the five republics, coupled with the relations with the great powers interested in the region. In the next sections, I will compile the results of various European and independent reports regarding the implementation of the EU Strategy for Central Asia in a SWOT analysis, the opportunities section being the main recommendation for the future strategic planning.

1. A neoclassical realist approach to European Union's foreign policy

When thinking about the EU, the analysts adopt mainly a constructivist or a liberal approach. Insufficient attention has been given to the power dynamic in the international system, which draws

partner states to respond to the EU's initiatives. By choosing the neoclassical realist approach to explain the EU, I aim at broadening the view of the Europeanisation in neighbouring countries, expanding the constructivist view with a more structuralist image of the international system. Europeanisation explained through the new institutionalism focuses mainly on institutions, formal and informal, in creating a means for the reform implementation. The common framework employs a bottom-up perspective, while the neoclassical realist approach aims at combining the national and international levels of analysis. Therefore, the use of a realist framework, even neoclassical, can represent both an interesting endeavour and a challenging one.

The neoclassical realist perspective of the EU foreign policy in Central Asia highlights the need of creating a common European foreign policy, which resembles that of a state, as well as maintaining the significance of the a multiple layered voice. The constructivists highlight the idea that the EU is a normative power, aiming at creating a value-based foreign policy with neighbouring countries, while providing the set-up for a more coherent approach in the region (Maurer and Simao, 2013, p. 94). Analysing the EU only as a value-based actor, which aims at promoting stability in the system (Maurer and Simao, 2013, p. 95) does not account for the international system's structure which impacts the EU foreign policy choices.

The theoretical perspective of the present paper stresses the importance of the power dynamics in the international system, without neglecting the relevance of the internal leaders in forging certain policy decisions. Even at the EU level we can discuss of a cohesive approach to certain foreign policy goals, which can enable the use of a neoclassical realist approach in the study of its behaviour.

1.1. The neoclassical realist theory: from system through units to foreign policy

The neoclassical realism is a relatively recent research agenda, Gideon Rose coining the term in a review article in 1998. Rose claimed that, in an attempt to shed light on the foreign policy of states, the neoclassical realists argue that the material capability as well as the system's structure influence the behaviour of the states through the national leaders' perceptions and decisions (Rose, 1998, pp. 146-147). In an attempt to structure the research agenda of neoclassical realism, two volumes, from 2009 and 2016, brought together the main contributions to this theory, by highlighting the primacy of international system, without neglecting the domestic political arrangements and the national leaders' perceptions in choosing some foreign policy directions (Ripsman *et al.*, 2009, p. 280). In 2016, the authors refined the methodology and proposed a third generation theory aimed at explaining the international politics, instead of narrow foreign policies. Furthermore, the researchers

contributed to better defining the four categories of intervening variables at the national level (Ripsman *et al.*, 2016, pp. 8-9).

In the neoclassical realist view, the international system preserves the three fundamental characteristics identified by Kenneth Waltz in neorealism: the ordering principle, the degree of differentiation and the distribution of capabilities among the units (Ripsman *et al.*, 2016, p. 36). Therefore, the state's external behaviour is shaped the following systemic variables: relative distribution of power and its dynamics, various structural modifiers, clarity of the threats and the nature of a state's strategic environment, according to the imminence and magnitude of the threats and opportunities that states face (Ripsman *et al.*, 2016, pp. 40-56).

At the unit's level, the neoclassical realism defines the Foreign Policy Executive (FPE) as the main individuals with the capacity to influence the foreign and military conduct, having a monopoly over intelligence in the field (Ripsman *et al.*, 2016, p. 61). The lenses between the systemic stimuli and the state's behaviour are leaders' images, strategic culture, the nature of state-society relations and domestic institutions (Ripsman *et al.*, 2016, pp. 60-79).

Complementing the general neoclassical realist approach, the model of resource extractive state proposed by Jeffrey W. Taliaferro offers a more clear view of the internal dynamic. The leaders' perceptions of the relative power and intentions of other states are instrumental in choosing certain types of foreign policy strategies. The national elites decide in matters of foreign policy according to their capacity to mobilise resources for answering the challenges of international system, dependent on institutional strength of the state, as well as leaders' ability to raise and maintain support for national security strategies (Taliaferro, 2006, pp. 486-489). Additionally, state-sponsored nationalism and ideology can increase the societal cohesion and further contribute to the ability of the leaders to mobilise resources (Taliaferro, 2006, p. 491).

Broader than liberalism and constructivism, neoclassical realism remains primarily a state centric theory, the differences between units' internal policymaking and their understanding of systemic stimuli being reflected in the foreign policy behaviour (Rose, 1998, p. 154; Ripsman *et al.*, 2016, p. 35).

1.2. European Union as a neoclassical realist subject

The EU is a complex actor, with a clear influence in the power dynamics at the international level, albeit its relative impact compared to other established actors is somewhat contested. Considered by some researchers as a *sui generis* actor (Ozoguz-Bolgi, 2013, p. 3), the EU aspires to have a global influence, which necessitates a greater foreign policy coordination (Duke and Vanhoonacker, 2017, p. 25).

The state-centric approach of realism does not seem suitable for the EU, a preponderantly intergovernmental organisation in terms of foreign policy, than a supranational one with a tendency towards federalisation. Nonetheless, the attempt to theorise the EU as a subject of a realist analysis is not new: André Barrinha (2016) analyses the process of the foreign policy strategy elaboration through a progressive realist approach, while Nicholas Ross Smith (2016) discusses the economic relations of EU with Ukraine from the perspective in neoclassical realism. In addition, Stefano Costelli (2009) applies the neoclassical realist approach in an analysis about the Euro-Mediterranean Partnership.

Despite its lack of a state-like structure, the EU seems to follow a coherent normative approach in all its partnership, thus proving difficult to employ a predominantly power-oriented approach such as realism. N. R. Smith argues, however, that the neighbourhood represents a place the EU follows geopolitical interests of stability, rather than exclusively normative ones (Smith, 2016, p. 31). Even the constructivists consider that the value-based approach of the EU is oriented towards the promotion of structural stability (Maurer and Simao, 2013, p. 95). The aim to establish itself as a reliable actor in the international system, forces the EU to focus on value-based policies can generate structural gains, such as economic resources or prestige.

Therefore, I consider that the geopolitical interests of the EU extend also to Central Asia, even if this region is not an immediate neighbour. However, given the power interplay in the region and its energy resources much needed by the EU and its member states, Central Asia is a needed asset for increasing the authority of the EU at the international level, while maintaining the interest of the member states. The promotion of a specific strategy for Central Asia, aiming at implementing various normative goals, aims at maintaining a security stable region, which otherwise would spill-over in the immediate neighbourhood the EU, while also working towards ensuring energy security (Pop, 2017, p. 114).

The adoption of Lisbon Treaty aims at creating a more democratic and coherent approach to the foreign policy, while ensuring a continuation of the value-based initiatives (Maurer and Simao, 2013, p. 96). The EU reform coupled with the present changing nature of diplomacy mean a broader scope of the European diplomacy as well as the engagement of traditional and non-traditional actors in one's actor foreign policy definition (Smith, 2015, p. 13).

The Lisbon Treaty provides for a certain amount of consolidation in the foreign policy of the EU, while maintaining the intergovernmental decision-making. Nevertheless, this resulted in a more structured institutional form, with a High Representative for Foreign Affairs and Security Policy bridging together the European Commission and the Council of the EU (Maurer and Simao, 2013, pp. 100-101).

The maintenance of the different levels of the EU foreign policy seem to diffuse the unity of the European goals, but there are examples when the various levels of decision-making were forged into a single message (Smith, 2015, p. 20). However, from a neoclassical realist perspective, the

process of consultation, information-sharing and debating represent the way through which the elites are making sense of the power dynamics in the international system. Even if the different actors involved have various opinions, for the EU the action taken is unitary and broad enough to correspond also to national interests (Smith, 2015, p. 21).

Considering the fact that the foreign policy is ultimately a national competence, the coordination of the European external presence depends mainly on the nature of state-society relations, as described by the neoclassical realist theory. The institutional framework of the EU allows for consultation between stakeholders, which broaden the views regarding the strategic environment and the necessary steps.

Having in mind the stringent migration crisis manifested on the Southern frontier, we can assume that the main promoter of stronger relations with Central Asia will be the European Commission, through the High Representative, probably supported by the Eastern countries, which retain bilateral interests and presence in the post-Soviet space. The Foreign Policy Executive will be mainly a bureaucratic one, evaluating the success of the previous framework of cooperation and, in the context of a rising China, will propose measures for deepening the EU cooperation with the region.

The relationships of the member states with Central Asian states have been relatively limited, with the notable exception of Germany that has an extensive cooperation, resulting from the presence of German diaspora. The member states' interest revolve mainly around security cooperation, determined by the military operations in the neighbouring Afghanistan. Nevertheless, the relatively weak participation of the member states in the region gives way for a single voice of the EU, as a unitary and more powerful actor to be present in the region, possibly raising to the standard imposed by the current power play in Central Asia.

Therefore, the question raised by the present paper points towards how much institutional and political capacity has the EU to mobilise resources for a common goal in Central Asia, given that the relatively weak involvement of the member states leaves space for manoeuvre. Without competing interests at internal level, the EU has the potential to act as a state in search of domestic support for strategic foreign policy goals, in a region where great powers have already a place of their own.

2. Central Asia – unity in diversity?

As a post-soviet region, Central Asia struggled with the globalised view of state-society relations, aiming at first to implement democracy and market economies (Emerson and Boonstra, 2010, p. 11). However, the main trigger of Soviet disintegration was nationalism and not democracy, as the minorities across the Soviet Union took advantage of the instruments offered by the

Gorbachev's reforms (Bingol, 2004, p. 44). The Soviet nationalities policy aimed at creating the *homo sovieticus*, but also at strengthening the national minorities as a tool for increasing their availability to communist influence (Buzan and Waever, 2003, p. 402; Cooley, 2012, p. 18).

The boundaries of Central Asia are as contested as its unity. From the point of view of the theory of regional complex of security, Central Asia is a part of the post-Soviet complex, dominated by Russia, but, as we shall analyse below, there are other great powers active in the region (Buzan and Waever, 2003, p. 397). Another perspective is that exactly the involvement of the external actors in the region defines Central Asia as a unitary region (Kavalski, 2010a, pp. 5-6). From the latter point of view, nowadays Central Asia is very different from the historical Central Asia, as there are now independent states whose sovereignty came from the dissolution of Soviet Union (Kavalski, 2010a, p. 6). Consequently, their post-1991 evolution was not based on a statehood conscience and was driven by the same elites as before (Cooley, 2012, p. 18). Moreover, the Central Asian states are exercising their abilities in a very utilitarian manner, in order to gain the most of every interaction by playing the card of regional identity (Laruelle, Factoring the foreign policy goals of the Central Asian states, 2015, p. 75).

Central Asia is a region mainly recognized for its rich energy resources, but the internal political landscape determined a different path for each country. The Tadjik civil war (1992-1997) served as a counterexample for the Kazakhstan, Uzbekistan, Turkmenistan and Kyrgyzstan and determined the rulers to strengthen their power grip (Emerson and Boonstra, 2010, p. 11). Regime survival became the main goal of the Central Asian ruling elites, with different grades of authoritarianism during the 1990s, ranging from a softer version in Kazakhstan and Kyrgyzstan to the hard one present in the closed regimes of Uzbekistan and Turkmenistan (Bingol, 2004, p. 54; Emerson and Boonstra, 2010, p. 12; Cooley, 2012, p. 21).

The 2000s marked a political hardening, as the war on terrorism placed the Central Asian states at the centre of international interest, due to their closeness to Afghanistan. Additionally, the so-called coloured revolutions of the post-soviet states began to influence the local polities of Central Asia, contributing to the increased illiberalism of the heads of state (Emerson and Boonstra, 2010, p. 12; Buzan and Waever, 2003, p. 403).

Popular protests led to the dismissal of two presidents in 2005 and 2010, but it did not determine a consistent path to democratisation in Kyrgyzstan, while in Tadjikistan, the end of civil war brought about stability and democratic consensus. Turkmenistan experienced a power change in 2007, only after the death of the long-time ruler Saparmurat Niyazov in 2006, and Gurbanguly Berdimuhamedov became a relatively more open president. Similarly, Uzbekistan experienced power change only after president Islam Karimov's death, when a more liberal Shavkat Mirziyoyev became president in 2016.

Kazakh president Nursultan Nazarbayev seems to enjoy the support of population, because of the economic success of the country.

The five Central Asian states face common challenges such as endemic corruption, socio-economic disparities, human rights violations, water issues, as well as the management of energy resources¹. Emilian Kavalski (2010a, p. 7) considers that Central Asia cannot be accounted for as a classical region with a shared identity and common values, but more as a region of common challenges without a shared identity, not even at national level in the Westphalian sense. Marlene Laruelle (2015, p. 77) notes that Central Asian states do not seek regionalism, but visibility at international level, by participating in various regional initiatives, without committing to their objectives.

A characteristic of the five Central Asian states is the multi-vectoral foreign policy, meaning they are building multiple bilateral relations, and their partners acknowledge this. However, only Kazakhstan seems to have built a positive multi-vectoral policy, playing in such a way so as not to antagonise the external partners. Turkmenistan, on the other side, declared itself neuter, isolating itself, while Uzbekistan, Kyrgyzstan and Tajikistan gain significant advantages, both in security and economy, through the opposition of the great powers, only proving their internal instability (Laruelle, *Factoring the foreign policy goals of the Central Asian states*, 2015, p. 82).

The tensions between the political leaders have constantly hindered the possibilities of regional cooperation (Laruelle, *Factoring the foreign policy goals of the Central Asian states*, 2015, p. 82), but this seems to be changing recently, especially following the power change in Uzbekistan. Mirziyoyev follows the same strategies as his predecessor, but he is more concerned about the tactics, being more open to regional cooperation in identifying solutions for common problems (Weitz, 2018, p. 51).

As part of their quest to be recognized as autonomous actors, the Central Asian leaders – with the exception of Berdimuhamedov, represented by the Speaker of the Turkmen Parliament – gathered in Astana, at the invitation of Nazarbayev, on 15th March 2018. The meeting was deemed informal and received little publicity, but resulted in a Declaration, which highlighted the regional solidarity and broad engagement to cooperate on various topics of common interest. The summit highlights the commitment of the leaders, as the Central Asian internal policies are still driven by personal views, marking a concrete step towards regionalisation, as I discussed elsewhere (Anghelescu, 2018). However, the little awareness surrounding the discussions suggest that the protagonists are not yet

¹ For a more comprehensive discussion on the internal policy problems common across the Central Asia region, see Emerson and Boonstra, 2010, pp. 11-36.

fully prepared to challenge the involvement of the great actors in their regional issues (Anghelescu, 2018; Ng, 2018).

The many challenges faced by the Central Asian states stem from their regional positioning, at the crossroads of the influence of great actors, as well as from their common political path in the context of globalisation. However, due to a complex of changes both at internal level, as well as in the dynamics at the international level, the region seems to raise above its limit as a playground of the great powers and tries to construct a common political identity of goals and deeds.

3. Power play in Central Asia – the great actors in the region

Following the 9/11 terrorist attacks, Central Asia became interesting again for the great powers and came under global scrutiny. All this renewed interest in the dynamics of the five post-soviet republics – Kazakhstan, Uzbekistan, Kyrgyzstan, Turkmenistan and Tajikistan – recalled the "Great Game" of the 19th century – a power play between the British and Tsarist Empires which was branded as such by Rudyard Kipling. However, as many researchers highlight, the present dynamics of the region are not a replay of the 19th century power struggle, because, while the great actors are still actively involved in the region, the Central Asian ruling elites are trying to impose their own local rule (Romanowski, 2016, p. 5; Cooley, 2012, pp. 4-5; Kavalski, 2010a, p. 9).

Even if nowadays the Central Asian republics are autonomous states, the great powers are still aiming at influencing the regional dynamic in a concurrent manner, which reinforces their multi-vectoral foreign policy, especially the negative side of it. The process known as *hegemonic fragmentation* (Kavalski, 2010a, p. 19) allows the five states to have a reasonably equal regional stance, preserving the stability through a stable balance of power.

The main reason determining the active involvement of the foreign actors in Central Asia is the security issue. As neighbours to Afghanistan and some of them being themselves relatively weak states, the United States, Russia, China and India are more or less preoccupied with the security of the region.

The United States entered Central Asia landscape mainly after 9/11 as part of the war on terrorism, when Washington established a security cooperation especially on a bilateral basis with each of the five republics. However, the success of the American measures is debatable, as the local leaders used the opposition with Russia and China to increase their benefits, while lowering the US demands (Cooley, 2012, p. 49). The precedence given to the US security interests in this bilateral relation, as well as the relatively low attention granted to local needs decreased the chances of

successful cooperation for other institutional actors associated with the United States, such as World Trade Organisation or NATO (Fumagali, 2010, p. 188).

Russian presence in Central Asia was taken for granted during the 90s, when Kremlin did not propose a concrete policy and even tried to separate itself from the region that reminded of the Soviet past (Laruelle, 2010, p. 155). The domestic changes in Russia at the turn of the century determined a renewed interest for the region, as a quest for re-establishing the great power status of Russia under Vladimir Putin's rule. The main interests in the region revolve around energy resources, which Russian companies seek to fully control, and the regional security, expressed through the creation of institutional frameworks resembling the Western ones (Laruelle, 2010, pp. 162-167). In addition to hard power measures, Russia also plays the card of soft power through economic ties and cultural cooperation, but it is argued that everything was just a reaction to the rise of other actors (Cooley, 2012, p. 72).

China's engagement with Central Asia represents just a short glimpse into the greater Chinese strategy of *peaceful rise*, which promoted regional cooperation and the avoidance of conflict with other great powers (Clarke, 2010, p. 120). By convincing the partners of the mutual beneficial relations, China sought to establish itself as an alternative to Russia and the United States, first by creating a strong and active institutional framework of cooperation – Shanghai Cooperation Organization (Clarke, 2010, p. 133; Cooley, 2012, p. 75). In 2013, the Chinese President launched the *One Belt, One Road* initiative, later rebranded as *Belt and Road Initiative* (BRI), a foreign policy concept aiming at restoring a new Silk Road through various fields of cooperation: political, economic, financial and infrastructural, as well as through people-to-people contacts. China aims at convincing its partners to support Beijing's initiatives in the international arena, as well as creating an awareness of the Chinese soft power across the region (Laruelle, 2018, p. xi).

Turkey is also seeking to have a place in the Central Asian affairs, by playing the cards of a common pan-Turkic identity with little success (Sasley, 2010, p. 209). Iran is interested in economic and political cooperation, without aiming at becoming a hegemonic partner, but a regional actor not limited by the Western pressures (Pahlavi and Hojati, 2010, p. 225). India designed a *Look North* policy, proving a strategic will limited by little influence due to the domestic limitation (Kavalski, 2010b, p. 257), but recently emerging as a partner for China in the region.

Central Asia has become a region where international actors are interested to have a say, because of security reasons, or because of the resources the landlocked region brings. By becoming a “window into the multipolar world” (Cooley, 2012, p. 11), Central Asia cannot be the subject of the traditional approaches of the great powers, as the regional needs and domestic views have to be taken into account. From a neoclassical realist perspective, the international subsystem of Central Asia is

relatively clear, the nature of threats to the EU presence in the region being preponderantly economic raised from the increasing presence of China. Consequently, the EU has to adapt its policy in order to respond better to its internal need for greater global actorness, while balancing the Chinese rise.

4. European Union – a strategy for a new partner for Central Asia in the 21st century

In 2007, following a scattered bilateral cooperation, the EU, at the initiative of Germany, adopted a Strategy for cooperation with the Central Asian countries. During the 90s, the EU supported the development of commerce and investments in this region, providing assistance in the transition from centralised to market economy, through the creation of small and medium enterprises. Additionally, in terms of infrastructure and transports, the EU invested in the Transport Corridor Europe Caucasus Asia (TRACECA), with the aim of developing the regional connectivity and reducing the poverty (Mori, 2016, p. 11).

The reasoning behind the adoption of the 2007 Strategy was based first and foremost on the regional security problems, in view of the Afghanistan war, complemented with the EU's interest for the diversification of its energy sources, following the Russo-Ukrainian tensions of 2006 (Council of the European Union, 2009, p. 10; Emerson and Boonstra, 2010, p. 9). The Strategy focuses on seven priority areas for a comprehensive partnership: democratisation, human rights and rule of law; youth and education; economic development, commerce and investments; energy and transport; environmental and water sustainability; common threats, as well as intercultural dialogue (Council of the European Union, 2007, p. 2).

The financial assistance offered through the Strategy for 2007-2013 was pledged to a double amount compared to the previous period of cooperation (Council of the European Union, 2007, p. 3), reaching 750 million euro for three main objectives: stability/security, poverty reduction, and regional cooperation (Peyrouse, 2017, p. 2017). For the 2014-2020 period, the funding allocated by the EU for bilateral and regional cooperation was increased by 56%, raising to over 1 billion euro (Council of the European Union, 2015, p. 4). The money were allocated according to country priorities, with the notable exception of Kazakhstan, which cannot receive funding because of its economic development. The areas of investment were defined as follows: Kyrgyzstan – rule of law, education and rural development; Tajikistan – education, health and rural development; Uzbekistan – rural development and Turkmenistan – education (Directorate General for External Policies, Policy Department, 2016, p. 9).

The cooperation with international financial institutions was highlighted as a priority in the Strategy, as the World Bank, European Bank for Reconstruction and Development and European Investment Bank could support the EU initiatives in the region (Council of the European Union, 2007, p. 6).

Institutionally, the Strategy aims at direct cooperation with other international organisations, to be read *western organisations*, such as UN, OSCE, NATO or Council of Europe (Council of the European Union, 2007, p. 5). However, the EU could not ignore the power interplay in Central Asia, acknowledging the regional cooperation initiatives sponsored by Russia (Collective Security Treaty Organisation and Eurasian Economic Community) or China (Shanghai Cooperation Organisation and Central Asia Regional Economic Cooperation - CAREC) (Council of the European Union, 2007, p. 6). Additionally, the EU named a special representative for Central Asia, a fact that encouraged the development of periodic bilateral dialogues in various domains, as well as the cooperation with relevant institutions of member states (Council of the European Union, 2007, pp. 5-6). Specifically, the EU established a series of objectives of regional cooperation with the aim of increasing the socialisation and norm transfer. It promoted activities such as regular political dialogue, creation of a European Education Initiative, an EU Rule of Law Initiative and the development of an *e-silk-highway*, as well as a Human Rights Dialogue and energy dialogue on a bilateral basis (Council of the European Union, 2007, p. 3).

Researchers consider the 2007 Strategy an expression of a political vision comprising some broad aims, in need of a rigorous plan of actions to attract the participation of member states that do not consider Central Asia as a political priority (Boonstra, 2015, p. 1). However, from a neoclassical realist perspective, the absence of many actors interested in Central Asia at the level of EU allows Brussels to construct a unitary vision and implement it in a multilateral approach. On the other hand, the lack of interest among the member states for Central Asia may translate in a lack of support for the EU Strategy, as they are not ready to mobilise resources for a remote region while confronting more stringent needs at home or in the near abroad. Overall, everything depends of how the EU manages to mobilise the support of the member states in its relations with a region with high potential.

5. Lessons for the future of EU-Central Asia cooperation

In 2019, the EU will launch a new Strategy for Central Asia, which has to take into account the increasing struggle present in Central Asia, as already discussed, along with the internal challenges faced by the EU itself. The reforms envisaged by different leaders of the EU point to the need for increased coordination among the member states and the necessity to the raise to the standard of a global power constantly predicated in the international arena.

In order to do so, I will continue by reviewing the EU Strategy for Central Asia from 2007 through a SWOT analysis. The strengths and weaknesses of the Strategy are synthesized mainly from the conclusions of many progress reports elaborated both by the EU and by independent experts (Council of the European Union, 2008; Council of the European Union, 2010; Emerson and Boonstra, 2010; Council of the European Union, 2012; Pirro, 2013; Council of the European Union, 2015; Boonstra, 2015; Peyrouse, 2017). However, the threats and opportunities are discussed in the following section as lessons for the future planning of the Strategy, being elements that take into account the strategic environment of Central Asia as discussed in previous sections.

The EU identified in the first years of bilateral cooperation some priority areas, which are now further developed in the measures undertaken in the Strategy. The advantage provided by the span of initiatives is that the EU has created many channels through which to influence the strategic culture of the Central Asian leaders and experts in order to implement reforms. The successive reviews of the Strategy further strengthened the European vision for the region, by better operationalising the goals of cooperation and clarifying the specific actions to be taken.

However, the downfall of so many topics of cooperation results in difficulties in implementing result-oriented activities and the fulfilment of the proposed goals. This is especially true in the context of more sensitive areas of cooperation, such as rule of law and human rights, where the regional data show little improvement in the past years.

Moreover, the EU was keen to develop cooperation beyond the traditional areas of security and energy, where other main actors were present. To this end, the EU attempted at projecting its normative power in the region, through value-based initiatives (education, civil society and mass-media promotion) and civil operations (border management, drug trafficking). The main instruments used were the technical assistance projects, which provided training for local experts and access to the European *modus operandi* in the matter. The Central Asian countries were eager to develop cooperation especially in the fields of education and water management, as they considered the EU a standard and a model to follow.

Nonetheless, this development was coupled with little visibility for the EU in the region; therefore, the mainly political cooperation in these areas resulted in a lack of real impact in the society and on the states. One of the major weaknesses of the EU in the region remains the delocalisation of the EU Special Representative for Central Asia and the limited staffing of the EU Delegations that do not cover the entire region. Despite the search for a unitary voice of the EU in the region, the involvement of the Member States is crucial for the success of the Strategy, as they can provide technical assistance in the domains of national competence. Perceived as non-priority region, the cooperation with Central Asia lacks coordination between the member states national interests and

the European ones. Nonetheless, the last years saw an increase in the involvement of the national states in the implementation of European projects.

Another strength of the Strategy and of the EU as a unitary actor is the capacity to mobilise financial resources for the implementation of the activities. Throughout the past decade, the budget allocated specifically for Central Asia doubled and the amount allocated through other already established European programs (such as Erasmus, EIDHR etc.) significantly increased.

On the other hand, due to the limited presence of the EU on the field, the constant travelling of the experts and especially of the EU Special Representative for Central Asia from Brussels raises questions about the budgetary allocations. Other critics suggest that the money spent on the local projects are not transparently monitored, which, coupled with the lack of progress on democratisation, results in little impact on the civil society.

As noted above the main strengths of the Central Asian Strategy of the EU derive from its potential to impact different levels and domains, ambition met with increased financial resources. However, the challenges stem from the little capacity of the EU leaders to mobilise the political will of the member states to contribute the general vision with national projects.

The implementation of the 2007 Strategy for Central Asia showed the difficulty EU faces in maintaining its presence in the region, while also coordinating the activities of the member states. The EU is a less visible actor in the region and, despite the preponderant optimistic tone of the four Progress Reports (2008, 2010, 2012 and 2015), the concrete results are lacking, mainly because the objectives are too broad, while the means are too narrow (Peyrouse, 2017, p. 3).

One of the main threats that the EU has to face is a lack of concrete goals of cooperation and the long-term view for the initiatives launched, which translates in little progress and minimum visibility in the society. The significantly political dialogue has its merits in creating a regional community in Central Asia, but also lacks a more pragmatic side of cooperation through which to involve the whole region.

Bearing in mind that many actors are trying to be present in Central Asia, the EU is faced with the opportunity of working towards identifying niche domains, where it can truly contribute. The niche initiatives should be implemented in short periods, with specific objectives, easily traceable and monitored by independent bodies. Through the knowledge gained in the past decade of interaction, the EU can identify no more than 3 areas of regional cooperation to work on in the next 7 years Multiannual Financial Framework, in order to facilitate a loose integration of the five countries in fields of common interest. Given the previous success of the thematic cooperation, education, water management and border management can be considered.

The continual rise of China in the region is a major threat to the EU presence, especially in the context of the lack of visibility and understanding of the European instruments. Even if the EU is one of the biggest trade partners and donors in the region, there is a need for local activities aimed not only at promoting the opportunities of education in Europe (as previously done), but also of a constructive dialogue with the communities.

To this end, the EU has the opportunity to establish university branches in Central Asian cities, following the examples of Russia and the United States, promoting the European training programmes and the understanding of the EU functioning. Additionally, in the context of the Erasmus+ reform, the EU can design a section for scholarship funding in priority areas, where Central Asian citizens (students and experts) are allowed to participate. Considering the fact that EU is trying to change mentalities, education is the first domain of investment. Moreover, given the need for a better understanding and planning at the EU and member states level, the EU can support the creation of Central Asia Research Centres in European universities.

Ultimately, the EU is faced with a difficult choice of engaging the foreign great powers in its regional cooperation. In a recent interview, the President of the European Commission, Jean-Claude Juncker stated that the rhetoric of the Cold War is not productive and, while the EU faces challenges to its global standing, "There is no security agenda for Europe without Russia" (de la Baume, 2018). Moreover, the recent success of the Chinese Belt and Road Initiative in Africa shows the need of engagement between West, in particular the EU, and China, especially due to the limited aid provided by the West and the numerous conditions attached to it (Morgan, 2018).

Conclusions

The power dynamics in a globalised world are changing the way relevant international actors develop and implement their strategies. However, these dynamics cannot be accounted for in the foreign policy acts without an understanding of the internal dynamics at the level of the international actors, with the EU being no exception to this.

The neoclassical realist analysis of the multipolar dynamic of power in Central Asia provides an insight in the challenges the EU has to face in order to (re-)establish itself as a global actor. The implementation of the EU Strategy for Central Asia shows, in a nutshell, the fact that the EU is a very ambitious actor, aiming at influencing mainly through normative instruments geopolitical regions. However, the EU goals remain vague and general, while the impact is limited, which further erodes the EU presence in the region.

Therefore, my analysis highlights the need of engagement between the EU and the other actors active in Central Asia, especially Russia and China, creating an integrating vision for the benefit of the region. Nonetheless, this idealistic perspective should not shadow the pragmatic approach to the EU external action, with a need for less areas of cooperation in the medium term.

The development of a unitary strategy, which aims at gathering the support of the member states, while also delivering an autonomous stance to the EU, remains an unfulfilled goal. The neoclassical realist approach proposed in this paper offers a view on the structural dynamic that influences the EU political agenda.

The consolidation of the foreign policy of the EU following the adoption of the Lisbon treaty increased the coherence and the legitimacy of the positions adopted by the EU on certain matters. However, the EU has struggles in establishing its authority in Central Asia through the promotion of collaboration, given the difficulties in achieving common positions among its own member states, aspect highlighted also in the neoclassical realist analysis of the EU.

Brussels pushed for the development of civil society and of consultation mechanisms in Central Asia, which shows a common ground achieved at the EU level, thus enabling a more coherent approach. However, the limited success of such measures in the region demonstrate that international dynamics of power are stronger than the need for legitimacy. The neoclassical realist theory highlights exactly this: the national decision-makers firstly take into account the structure of the system, which is then filtered through various national stakeholders, according to their level of influence.

The research underlined the fact that the EU should focus on a narrower agenda, the most effective policy being that of niche diplomacy. Given the American fatigue in the region, the EU has a clear path for a stronger educational presence, especially considering the de-russification policy adopted the five Central Asian states. Additionally, the structure of the international system demonstrate a predisposition for the movement of people, therefore the EU should proceed by enhancing the opportunities for the mobility of Central Asian, mainly a young population. Possible niches to be explored by the EU should not include only educational and research mobilities, but also touristic facilities for mobility, as well as civil society mobility. Without eliminating the political and security dialogue, the EU can achieve more authority among its member states by offering opportunities for developing bilateral relations in Central Asia, while increasing its autonomy in dealing with more resource consuming and rewarding policies.

The present paper aimed at offering a different perspective on the EU-Central Asia relation, by analysing the capacity of the EU to establish itself as a unitary actor. By using the neoclassical realist approach, my research took into account not only the internal processes leading to a common European stance, but also the structural causes determining the degree of success of certain policies.

Considering the elements proposed in the neoclassical realist theory, the EU is working towards becoming a more coherent actor in Central Asia, maintaining however, a low level of resource mobilisation, which determines limited responses from the five partner countries. All these elements indicate the difficulty of the EU to become the credible global actor it aims to be.

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Iran and the European Union after the Nuclear Deal

Radosław FIEDLER*

Abstract

This article is focused on relations between the European Union and Iran after the Joint Comprehensive Plan of Action (JCPOA). The nuclear deal gave Iran a unique chance for developing cooperation with the EU. There are challenges to this, such as the Iranian autocratic system, its violation of human rights, its regional ambitions which threaten stability and, last but not least, the United States' unilateral withdrawal from the JCPOA. The failure of the EU's policy towards Iran might have negative consequences for regional security. This article presents both the potential benefits and problems in relations between Iran and the EU.

Keywords: European Union, Iran, nuclear deal, sanctions, foreign policy

Introduction

The issue of EU-Iranian relations is composed of different topics, from trade to political relations. Most publications have been focused on relations between the EU and Iran within the Critical Dialogue and Comprehensive Dialogue (Sturwe, 1998; Rudolf, 1999; Kausler, 2012). A broader perspective of EU-Iranian relations has been presented in *Iran-Europe relations. Challenges and opportunities* (Mousavian, 2008). Another topic well studied by different authors has been the role of the EU in nuclear negotiations with Iran and the effectiveness of the imposed sanctions in bringing Tehran to the negotiating table (Kienzle, 2013; Perthes, 2005; Quille and Keane, 2005; Rezaei, 2017).

The problem of the Trump administration's decision to withdraw from the nuclear deal has not been well studied and analyzed, especially in terms of consequences for the EU's relations with Iran, as well as the issue of proliferation and the potential resumption of a full-scale nuclear program by Iran.

The main goal of this article is to analyze the complex EU-Iranian relations, both before and after the nuclear agreement. One additional goal is to show that the EU has not developed a coherent strategy towards Iran since 2015.

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The Islamic Revolution and the shift in Iranian foreign policy accompanying it led to the breaking of ties with the Western powers, meaning that, among other considerations, the United States lost a key strategic ally. Iran under Ruhollah Khomeini challenged America's position in the Middle East. The demise of US-Iranian relations had a negative impact on relations between Iran and Europe. Even though the Western European powers did not cease their diplomatic relations with Iran, they became constrained. First of all, following the humiliation of the American hostage crisis in Tehran, Washington broke off relations with Iran. Even though some secret connections did still exist (as well as occasional intelligence cooperation), this did not lead to the recovery of bilateral relations (Fiedler 2017, pp. 13-20).

In Washington, Iran has been perceived as a troublemaker since the Islamic Revolution. The idea of changing the regime in Iran has never been abandoned by US policy-makers, and the current president, Donald Trump, has adopted a particularly strict position towards Iran. Washington has five major complaints about Iran: its plans to acquire offensive weapons and WMDs in an attempt to become a regional power, able to threaten Gulf stability; its sponsorship of international terrorism and assassination of its political foes; its hostile attitude towards Israel and support for anti-Israel forces and terrorism, from Hezbollah to Hamas; its subversive activities towards its neighbors, undermining pro-American allies and destabilizing the region; and, last but not least, its violations of human rights (Pinto, 2001, pp. 101-110).

For decades, sanctions have been imposed on Iran, intended to restrain the ability of the Islamic Republic to harm the interests of the US and its allies in the Middle East. Since 1992, diverse types of sanctions have been set up, some of which have had negative effects on Europeans interested in doing business in Iran. The wide range of sanctions have been focused on weakening the Iranian regime as much as possible, in the hope that it will be overthrown by Iranians frustrated with worsening economic conditions and inflation.

Table 1. Selected US sanctions imposed on Iran

Type	Characteristic
Ban on U.S. Trade with and Investment in Iran (May 6, 1995)	Bans almost all U.S. trade with and investment in Iran, still in force
U.S. Sanctions Against Foreign Firms Dealing With Iran's Energy Sector	The Iran Sanctions Act has been amended several times, and authorizes the imposition of 5 out of 12 sanctions on firms determined to have invested more than USD 20 million in the Iranian petroleum (oil and gas) sector; bought Iranian oil (unless the country has a sanctions exemption); sold more than USD1 million worth of gasoline or equipment to import gasoline or refine oil into gasoline to Iran; sold USD 1 million or more worth of energy equipment to Iran; provided shipping services for the transport oil from Iran; engaged in a joint energy venture with Iran outside of Iran; or bought Iran's sovereign debt. Waived in accordance with the JCPOA.

Sanctions on Iran's Central Bank	Prevents foreign banks that do business with Iran's Central Bank from opening U.S. accounts, unless the native country of the bank earns an exemption from the rule by "significantly reducing" its purchases of Iranian oil.
Terrorism List Designation Sanctions	Iran's designation by the Secretary of State as a "state sponsor of terrorism"
Sanctions Against Foreign Firms that Aid Iran's Weapons of Mass Destruction Programs	The Iran-Syria-North Korea Nonproliferation Act
Sanctions Against Foreign Firms that Sell Advanced Arms to Iran	The Iran-Iraq Arms Nonproliferation Act provides for U.S. sanctions against foreign firms that sell Iran "destabilizing numbers and types of conventional weapons" or WMD technology. Remains in force.
Ban on Transactions with Foreign Entities that Support International Terrorism	Authorizes a ban on U.S. transactions with entities determined to be supporting international terrorism. The order was not limited to Iran, but several Iranian entities have been designated. Remains in force.
Ban on Transactions with Foreign Entities that Support Proliferation	Provides for a ban on U.S. transactions with entities determined to be supporting international proliferation. Numerous Iranian entities, including the IRGC itself, have been designated. Remains in force.
Divestment	Authorizes and protects from lawsuits various investment managers who divest from shares of firms that conduct sanctionable business with Iran. Remains in force.
Sanctions Against Human Rights Abuses, Internet Monitoring, and Regional Activities	Various laws and Executive Orders impose sanctions on named Iranian human rights abusers, on firms that sell equipment which Iran can use to monitor the Internet usage of citizens or employ against demonstrators, and on Iranian persons or entities that suppress human rights in Syria or contribute to destabilizing Iraq. Remains in force.
Arms Transfer and Missile Sanctions in the Countering America's Adversaries through Sanctions Act (CAATSA)	The CAATSA law, signed on August 2, 2017, mandates sanctions on arms sales to Iran and on entities that "materially contribute" to Iran's ballistic missile program.
May 8, 2018 withdrawal from the Joint Comprehensive Plan of Action (JCPOA)	Two sets of sanctions, the first coming into effect on August 7, 2018. Includes restrictions on: Iran's purchase of U.S. currency; Iran's trade in gold and other precious metals; and the sale to Iran of auto parts, commercial passenger aircraft, and related parts and services. Remains in force. The second set of sanctions on November 7, 2018, includes restrictions on: Iran's purchase of U.S. currency; Iran's trade in gold and other precious metals; and the sale to Iran of auto parts, commercial passenger aircraft, and related parts and services.

Source: Katzman, 2018

Iran, under the sanctions imposed by the US, was also subject to the containment strategy. The US decided to isolate Iraq and Iran after victorious operations, such as Operation Desert Storm, and the intense military involvement of the superpower in the Persian Gulf since 1991 in general. The Arab monarchies of the Gulf Cooperation Council and Israel supported this policy towards Iran, which these states also regarded as a troublemaker. The Dual Containment strategy consisted of the following preventive actions against the Islamic Republic of Iran: sanctions, embargoes, and limits on the transfer of sensitive technologies to Iran and Iraq (Indyk *et al.*, 1994). The strictest sanctions were directed at the oil and gas industry in Iran. The most spectacular example was when the US Congress prepared a bill that would impose sanctions on any foreign corporation that invested USD 40 million or more in the Iranian oil and gas industry (reduced to USD 20 million after one year). The

bill was known as the Iran-Libya Sanction Act (ILSA), as Libya was later added by the Senate (Fiedler, 2013, pp. 27-38). America's strict policy towards Iran differed from Europe's willingness to engage with Iran and involve it more in economic ties and diplomatic initiatives. These attempts undertaken by the EU did not lead to a breakthrough. At least five main problems need to be resolved by the European Union in its policy towards Iran:

- Lack of support from the US in attempts to engage with Iran. American sanctions in the past were harmful for European companies investing in Iran. After President Donald Trump's withdrawal from the nuclear deal with Iran, the US reinstated sanctions which could be harmful for European companies dealing with Iran.
- The weak institutional framework of the EU, with the prominent role of member states inclined to pursue their own national interests, can result in a lack of coherent goals and prove to be an obstacle to the pursuit of a more consistent strategy regarding Iran.
- The problem of human rights violations by the Islamic Republic, given the EU's official policy as a human rights promotor and protector.
- Challenges for the EU in dealing with Iran's activity in the Middle East, especially in the sub-region of the Persian Gulf. Iran's involvement in the Syrian civil war, as well as in the conflict in Yemen and its support for Hezbollah, Hamas and Islamic Jihad are also problematic. Closer cooperation with Tehran is unlikely to change Iranian activities which may be harmful to other states in the Middle East, particularly Israel and Saudi Arabia.
- The existence of a narrow gap between the civil nuclear program and its militarization. The risk of dealing with Iran lies in the fact that it could accelerate its nuclear capabilities. Technically, Iran would need only 12 months to produce nuclear warheads. Renewed nuclear ambitions would jeopardize European economic and financial activity in Iran and would freeze the EU's investments there.

The European Union has perceived Iran as a potential partner with great potential, and has expressed this through investment in Iran's somewhat underdeveloped infrastructure and by providing goods for its market of 80 million potential consumers. Last but not least, the EU has recognized the country as an alternative to Russia with regard to the provision of gas and oil. In this approach, the EU differs significantly from the US in formulating policy towards Iran. As noted by Kenneth Katzman, "Iran has always maintained full diplomatic relations with the EU countries, although relations have sometimes been disrupted by assassinations of Iranian dissidents in Europe or attacks by Iranian militants on European diplomatic property in Iran. There are regular scheduled flights from several European countries to Iran, and many Iranian students attend European universities" (Katzman, 2018, p. 51). Despite differences, there were also moments of close

cooperation between Brussels and Washington. The EU's problem is linked to its relatively low profile as an international actor, in contrast to its position as a leading trade power in the global economy. Thus, on many occasions, the EU's actions have been overshadowed by the more visible US policy towards the Middle East in general and Iran in particular.

The EU has toyed with various initiatives and ideas for boosting relations with Iran. Unfortunately, in these activities, the EU was adrift without the support of the United States. In contrast to the EU, the US counted on long-term sanctions to lead to political change in Iran. Europeans preferred to focus on developing a model of cooperation with the Islamic Republic.

1. The European Union and the nuclear issue

The EU's manner of dealing with the problem by peacefully deterring Iran from developing a nuclear weapon significantly differed from the approach of the US. The latter's approach was comprised of three core elements: harsh sanctions, coercive diplomacy and, finally, military action as the last resort.

The EU had a record of engaging with Iran prior to the nuclear crisis which erupted in 2002. In 1992-1997, the EU had endorsed the Critical Dialogue to address several issues, including concerns regarding human rights. After a year-long crisis related to political assassinations in Germany, with the Iranian authorities and Ayatollah Ali Khamenei as the main culprit, Muhammad Khatami and his agenda focused on the dialogue with the West, which in turn opened a new window for engagement with Iran. EU diplomacy was re-commenced under the heading Comprehensive Dialogue (1998-2002), to signal a broader approach. While the human rights component became more prominent over time, the Comprehensive Dialogue also addressed areas of cooperation and mutual interest with the long-term ambition to sign a Trade and Cooperation agreement between the EU and Iran (Parsi, 2011). In 1999, the European Union considered entering into negotiations with Iran for a Trade and Cooperation Agreement (TCA), which it needed as a legal framework for its dealings with the country. By offering the TCA as an incentive for political and economic concessions, the EU wanted to create a stake for Iran which would tie the country closer to the EU, both politically and economically. Despite many difficulties, in 2000 the EU pressed ahead with negotiations on the TCA with Iran, which was linked to the Political Dialogue Agreement. Within the scope of this agreement were four areas: human rights, non-proliferation, terrorism, and the Middle East peace process. The strategy was simple: bringing Iran closer to the EU politically and economically, which would allow Europe to extract significant concessions from Tehran. Reciprocity from President Khatami and some

improvement in general relations with Iran made a more durable connection with Iran seem promising (Kaussler, 2014, p. 112).

Despite some progress with Khatami's government, political dialogue was overshadowed by the nuclear crisis. Between 2003-2006, the EU tried to negotiate with Iran through the EU3 (Germany, France, Britain) and the High Representative, in the person of Javier Solana. In 2004, an agreement (the Paris Agreement) was reached, in line with which Iran would voluntarily suspend its nuclear enrichment activities while further negotiations took place. The Iran-EU3 negotiations lasted throughout 2005, and Iran submitted various proposals through Hassan Rouhani, the nuclear negotiator to the EU3, expressing a readiness to (1) cap enrichment at the 5 percent level; (2) export all low-enriched uranium (LEU) beyond domestic needs or turn it into fuel rods; (3) commit to the Additional Protocol and Subsidiary Arrangement Code 3.1 of its safeguards agreement; (4) allow the IAEA to make unannounced and intrusive inspections of undeclared facilities; and (5) engage in no reprocessing of plutonium from the Arak heavy water reactor (Porter, 2012).

However, little progress was made and eventually the process failed for several reasons: (1) the George W. Bush administration in Washington refused to participate in any negotiations initiated by the EU; (2) the newly elected Iranian President Mahmoud Ahmadinejad (2005-2013) took a much tougher and more confrontational line on this issue than his predecessor; and (3) the EU and US demand for full cessation of enrichment was unacceptable and unfair to Iran, because even in the Non-proliferation Treaty, enrichment for civilian purposes is guaranteed (Posch, 2015).

When Mahmoud Ahmadinejad took office, Iran restarted its uranium conversion facilities in Isfahan. On September 24, 2005, the IAEA board of governors found Iran to be in noncompliance with its safeguarding agreement. On January 10, 2006, Iran resumed enrichment activities at its Natanz plant; on February 3, the IAEA voted to refer the file to the UN Security Council (UNSC) (Fiedler, 2013, pp. 45-60).

The EU's disenchantment with Ahmadinejad's uncompromising policy regarding the nuclear issue, together with his nationalistic agenda in the sphere of foreign policy, has resulted in closer cooperation with the US in formulating a strategy towards Iran. Convincing Russia and China that the Iranian nuclear program should be under more effective international control was an important achievement. The EU 3 evolved into P5 plus 1 (US, China, Russia, France, Great Britain and Germany). Beginning with the UNSCR 1696 in July 2006, a number of UNSC resolutions (UNSCRs 1737 and 1747 in 2007; 1803 and 1835 in 2008; and 1929 in June 2010) and the most comprehensive UN-led sanctions were passed. The EU added its own set of sanctions and restrictions, which were further updated regularly. In 2012, the EU took restrictions one step further with an EU-wide boycott of the import of Iranian oil and gas (Esfandiary, 2013). As a result, the EU's total trade with Iran

dropped to EUR 6 billion by 2013 from the estimated EUR 27 billion in 2011 (Mousavian, 2016, p. 86). In 2010, before comprehensive sanctions were implemented, Iran was the EU's 25th largest trading partner, and European countries were Iran's major trading partners. EU exports – machinery, transport equipment, manufactured goods and chemicals – accounted for almost a third of Iran's imports, between EUR 10-11.3 billion. The new round of sanctions put immense pressure on some countries in particular. As well as the Greek market, Spain and Italy – the largest European buyers of Iranian crude – buy slightly more than 10% of their crude from the Islamic Republic, accounting for 6-8% of Iran's total crude oil exports to the EU (Tabrizi and Santini, 2012).

Moreover, the Belgium-based Society for Worldwide Interbank Financial Telecommunication (SWIFT) is the primary provider of the transfer of information about financial transactions between banks. In 2012, pursuant to US and EU sanctions, SWIFT disconnected Iranian banks from its messaging system (Cronberg 2018).

A breakthrough came alongside President Obama's changed approach and the election of a new Iranian president, Hassan Rouhani, in June 2013. The Obama administration had acknowledged that the goal of making Tehran abandon its nuclear enrichment program was unrealistic and hard to accept for Iran, and had finally accepted the EU's position on a more realistic agenda towards low-level enrichment for civilian purposes in Iran. In addition, with a somewhat more flexible approach set by the new Iranian negotiating team under foreign minister Javad Zarif, the negotiations became regular and constructive. In November 2013, the P5+1 and Iran agreed to the Joint Plan of Action, which outlined the future negotiation process and the possible end goal of a comprehensive agreement on Iran's nuclear program. Progress was achieved thanks to the commitment of the European partners and, institutionally, by the EU, with the High Representative in the person of Catherine Ashton. Her personal role was particularly important, and she was described as a skillful diplomat in the talks with Iran (Rettman, 2014).

In July 2015, intensive negotiations led to the final nuclear deal, which was called the Joint Comprehensive Plan of Action (JCPOA). It aimed to eliminate the risk of exceeding the threshold beyond which the program could be militarized. The removal of this risk requires that, until 2030, Iran keeps its uranium enrichment activities below the level of 3.67% and maintains a total stock of uranium under 300 kg. Guaranteeing the civilian nature of the nuclear program depends on Iran's commitment to reduce its total stock of enriched uranium by 98%. Uranium enrichment activities are now only limited to the Natanz facility; moreover, two-thirds of Natanz's centrifuges have been dismantled. Only five thousand of the old IR-1 models are permitted for use until 2030. The 'breakout time' is defined as the amount of time it would take Iran to acquire enough fissile material for one nuclear weapon (Heinonen, 2015).

The JCPOA has considerably enhanced the possibility of international inspectors being able to detect any Iranian non-compliance in time. If Iran decides to abandon the provisions of the JCPOA, the international community would react immediately by reapplying all sanctions which were lifted in January 2016. Moreover, the JCPOA provides for the reconstruction of the heavy-water reactor at Arak, with a view to ending the production of plutonium for military purposes and devoting the plant exclusively to the production of medical radioisotopes. In short, the nuclear agreement contributes to the strengthening of the 1968 Nuclear Non-Proliferation Treaty (Jessen, 2017).

The JCPOA concluded a very detailed agreement with Iran, including technical details with its strength ensured by the signatures of the US, China, Russia, France, Great Britain, Germany, and additionally by the EU as important signatory. The EU's diplomacy was successful and consistent with the US' approach to negotiations on the nuclear issue in this context.

Despite these successful accomplishments, there are several weaknesses which may undermine the JCPOA's durability: (1) the agreement did not include the Iranian missile program and did not initiate more comprehensive dialogue with Tehran on its regional policy in the Middle East; (2) the nuclear deal has not changed Iran's behavior, threatening Saudi Arabia and Israel, in regional politics; (3) the agreement with the international community has not changed Iran's internal political situation and has not initiated political reforms to soften autocratic rule in Iran; (4) the agreement is a disappointment for the Iranian authorities, because the increased scope of inspections and the significantly reduced enrichment of uranium (Tarock, 2016, p. 1408-1424).

2. EU-Iran-United States

On January 16, 2016, all UN, EU, and US nuclear-related sanctions on Iran were lifted after the confirmation by the International Atomic Energy Agency (IAEA) that Iran had fulfilled the requirements of the nuclear agreement reached in July 2015. Under the JCPOA, SWIFT reconnected Iranian banks to re-enable international banking transactions.

In April 2017, the World Bank reported that Iran's economy had significantly improved in 2016, due to sanctions relief facilitated by the JCPOA.

The lifting of nuclear-related sanctions under the JCPOA has also had a positive impact on the EU trade and economic relations with Iran. From its lowest point in 2013, EU trade with Iran reached a total of EUR 21 billion in 2017. The average annual growth rate in EU exports to Iran since 2013 is 18.7%; in 2016-2017, the growth rate reached 31.5%. Imports nearly doubled in the period 2013-2017, with an 83.9% increase in 2016-2017. Iran is the EU's 30th largest trading partner, while the

EU is Iran's third largest. In February 2018, 40% of Iran's oil exports went to EU member states, including the UK, France, Italy, Spain, Greece and Hungary (Ewing and Reed, 2018).

The Iranian market has been reopened for the European companies and investments. New opportunities have arrived in the following markets: manufacturing, energy, and the automotive industry. The biggest deals which have been announced are displayed in Table 2.

Table 2. The biggest European-Iranian deals which have been announced

French company Total	signed a \$4.7 billion deal to develop production in South Pars gas field.
Citroen, Peugeot, Renault, Scania, and Volkswagen	agreed in 2016 to open a plant producing 200,000 vehicles annually in Iran, under a EUR 255 million deal with Iranian company SAIPA. Renault signed a EUR 660 million investment deal to build 350,000 cars a year at a factory outside of Tehran, together with two Iranian firms. Swedish company Scania has established a factory in Iran to build 1,350 buses.
Siemens	signed a contract to modernize Iran's railway network.
Vodafone	partnered with Iranian firm HiWeb to modernize Iran's information technology infrastructure.
Danieli	signed several contracts to supply heavy machinery for steel production.
Quercus	announced a EUR 500 million deal to develop Iran's solar energy sector
Italian company FS	signed a EUR 1.2 billion deal to build a high-speed railway between Qom and Ar

Source: Ewing, Reed, 2018

Iran seems to be a promising prospective partner. It has underdeveloped infrastructure, is in need of new technologies, and its extractive, automotive and aviation industries require investment and modernization. Iran and the EU have many potential areas of cooperation. Table 3 shows the role of the EU in Iran.

Table 3. The EU and Iran's shared goals

Iranian goals	EU's assistance
To remain the third largest gas producer in the world, with gas production of 360 bcm/y by 2025.	The expansion of upstream gas production will require investment and technology from European and international companies
To inject gas into the oil fields in order to maintain and increase oil production.	EU companies can offer effective solutions to increase the recovery rates of Iranian oil fields and hence help Iran to produce more efficiently.
To supply gas to power plants, gas-based industries and petrochemicals, and to export value-added products at economically viable prices.	EU companies would be major sources of technology and investment but could also become partners in developing regional opportunities, e.g. using Iranian gas in a third country to produce gas-based commodities.
To replace domestic demand for petroleum products with gas and maintain the share of gas in Iran's energy basket above 70%.	Some EU countries have a good track record of optimizing their energy basket and utilizing diverse sources.

To export gas to other countries in the region, the Indian subcontinent and Europe.	The EU can increase profits from the import of gas and oil from Iran.
To increase energy efficiency in industrial, residential and commercial consumption.	EU companies could offer the required technologies to improve energy efficiency, with clear economic and environmental benefits.

Source: Parsi, 2016, p. 15

Tehran’s adherence to the JCPOA’s provisions has energized the EU’s activity and connections, helping to develop investments in Iran.

Table 4. The EU’s main areas of activity

The EU main areas of activity
1. maintaining and deepening European economic relations with Iran;
2. the continued sale of Iran’s oil and gas condensate petroleum products, petrochemicals and related transfers;
3. maintaining effective banking transactions with Iran;
4. continued sea, land, air and rail transportation relations with Iran
5. the further provision of export credit and the development of special purpose vehicles in the banking, insurance and trade areas, with the aim of facilitating economic and financial cooperation by offering practical support for trade and investment;
6. the protection of EU economic operators and actions to ensure legal certainty;
7. the further development of a transparent, rules-based business environment in Iran.

Source: (New atmosphere prevailing Iran-Europe economic relations, 2018)

Despite the fact that the JCPOA is imperfect and does not include the Iranian missile program, it nevertheless provides improved access to the Iranian plants for the IAEA, which may request inspection of an Iranian nuclear site within 14 working days. The IAEA has published 10 reports certifying that Iran has fully complied with its commitments (Osiewicz, 2018).

The JCPOA has been treated as a victory for moderates in Iranian politics. Hardliners were dissatisfied by the exposure of Iran’s plants and installations to international inspections. Iranian politics is composed of three competing factions: reformers, moderates (also known as pragmatists) and hard-liners. The nuclear deal empowered the moderates and its failure will certainly embolden hardliners in Iran (Fiedler, 2018, pp. 161-172).

Donald Trump in his presidential campaign was an ardent critic of the JCPOA and advocated a tougher position on Iran. It came as no surprise, then, when on May 8, 2018, the President announced that the United States was withdrawing from the JCPOA and the P5+1 agreement. (The US failed to convince its partners that Iran had violated the JCPOA, although President Trump accused Iran of being the “leading state sponsor of terror,” “enriching uranium” and reaching the brink of a nuclear

breakout. US withdrawal is a serious blow to the JCPOA and its durability. The decision was taken unilaterally and, unfortunately, the European partners – President Emmanuel Macron of France, German Chancellor Angela Merkel, and Prime Minister of the United Kingdom Theresa May – have failed to convince President Trump to honor the multi-lateral deal. The EU High Representative, Federica Mogherini, was very critical of Trump’s move and has publicly asserted that “the nuclear deal with Iran is the culmination of 12 years of diplomacy. It belongs to the entire international community. It has been working and it is delivering on its goal, which is guaranteeing that Iran does not develop nuclear weapons” (Cherkaoui, 2018).

Almost two weeks after Trump’s withdrawal, the newly-appointed Secretary of State, Mike Pompeo, set out 12 conditions which Iran must fulfill for any new nuclear agreement to be reached. Conditions refer to ceasing all uranium enrichment; ending the development of nuclear-capable ballistic missiles; termination of Iranian support for Hezbollah, Hamas, Houthi rebels in Yemen, and the Taliban; withdrawal of all Islamic Revolutionary Guard Corps (IRGC) and Iranian proxy forces from Syria; dismantling of IRGC-backed militias in Iraq; and, for good measure, no more chants of ‘Death to Israel’ (Staff, 2018). The diplomatic weakness of the Trump-Pompeo unilateral policy lies in its lack of consideration for the opinions of other parties and the deliberate undermining of all the achievements of the previous administration. This hardline stance regarding Iran causes deepening mistrust and hostility between the two countries. Traditionally, the United States has been positively thought of by Iranians, despite the authorities’ official Anti-Americanism. An overly harsh US policy towards Iran could result in pushing Iranians to support their government, by creating the impression that the country is in danger. Trump’s plans to engineer social unrest in Iran would be futile if the US reimposes sanctions on Iran without justification.

Throughout the Trump administration, the US’s relations with EU have worsened in many areas. The EU has lost a valuable partner in dealing with global problems. Previously, the US-EU joint strategy regarding Iran in 2010-2013 brought Iran back into negotiations. Nowadays, the EU is not only lacking support from the US; in fact, its relations with Iran might additionally increase the tensions between the EU and Washington if Europe continues to engage with Iran. The Trump administration still has at its disposal highly effective secondary sanctions, allowing the United States to threaten sanctions against foreign firms and businesses that deal with Iran. These sanctions essentially force the rest of the world to choose between doing business with Iran or the United States. Since the United States is the world’s largest economy and the center of global finance, it is really no choice at all. European diplomats have also confessed that if the United States reimposes secondary sanctions, it is likely that many European firms would choose to cut economic ties with Iran,

regardless of their official government positions, to avoid being cut off from the American financial system.

In the months following the US's withdrawal from the JCPOA, many large European companies have decided to limit their activity in Iran. Total has already announced that it will not develop the South Pars gas field. Maersk and Peugeot have also left Iran. It was also recently reported that many German companies, including truck and car manufacturer Daimler, intend to withdraw from Iran (Czulda, 2018).

The EU's failed efforts to keep the US in the deal centered on three main areas of interest – firstly, the European Union's principles of international cooperation and as a normative force in the development of an effective security system, non-proliferation and the primacy of diplomacy in resolving international disputes. Secondly, the EU has significant economic and commercial stakes in a viable nuclear deal, and, thirdly, Brussels assesses that the deal has been working to inhibit Iran's acquisition of nuclear weapons capability, and that it therefore strengthens regional and European security.

No satisfactory results have been achieved in any of these areas. The success of EU diplomacy in reaching a nuclear agreement has been mentioned many times, but no system has been developed to maintain it.

Concluding remarks

The EU, after President Trump's withdrawal from the JCPOA, has found itself in a somewhat difficult position regarding Iran. Trump's presidency might be seen as both a challenge and an opportunity for the EU to pursue a more independent policy towards this country. According to Ian Manners, the EU acts as a 'normative power' that often prioritizes respect for universal values over potential military and financial gains (Manners, 2002, pp. 235-258). Manners' idealistic vision of the EU is not yet fully justified, however. To fulfill these expectations, the main challenge would be to balance the member states' interests with the EU's official policy towards Iran. The EU was in a comfortable situation due to its similar position to the leading US and within the P5 + 1 during the nuclear negotiations with Iran. Nowadays, the EU must build and retain its cooperation with China and Russia in order to keep the JCPOA alive. Iran is a challenging partner, with potential domestic instability; moreover, its support for groups such as Shia militias in Iraq, the Houthis in Yemen, Hamas, Hezbollah and Bashar Assad's regime in Syria remains problematic. The EU should reconsider its policy towards Iran – focusing on business activity in Iran is too narrow an approach, especially when European companies may be sanctioned by the US.

The EU has a unique opportunity to take a lead in developing relations with Iran. However, this is not without risk, as the EU is going through a turbulent time, with the rise of populism and contradicting interests within the European family that could result in it not being able to effectively defend the JCPOA and its developing ties with Iran. One can envisage different scenarios of EU-Iranian relations after the nuclear deal; for example, Iran, faced with unprecedented drought, needs the EU's assistance in improving its water management. There are many possible areas of mutual cooperation also with respect to building a route of gas pipelines to Europe that could become an alternative to the Russian pipelines.

In the immediate future, the EU and its member states will have to decide whether they should take the lead and act in order to build and maintain relations with Iran, or withdraw from cooperation with Iran, thus undermining relations for decades. Failure to sustain the JCPOA would certainly undermine all of the hard work that was put in during years of building relations between the EU and Iran. Big European corporations do not want to risk major investments in Iran. This suggests that the JCPOA will be ineffectual without the US.

The resumption of the Iranian nuclear program would be a very serious challenge for the European Union. The EU, unable to maintain the JCPOA after US withdrawal, would not be a reliable partner for Tehran. Iran would look to China and would probably engage more in the Belt and Road Initiative as an alternative to the West.

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EU – A stronger global actor: new contexts for EU-Korean relations

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Abstract

European Union (EU) is currently confronting a series of challenges to its internal dynamics as well as its position on the international arena. However, EU continues to rely on its normative power in order to influence international order and build on its image as a strong global order. Our research therefore aims to contribute to the debate on the concept of Normative Power Europe, by analysing EU-Korea relations. In this manner, the framework emphasizes EU's role as a global actor, in three main areas of interest for both strategic partners: economy and trade, development cooperation, peace and security. As such, the main findings revolve around maintaining a sound cooperation in the three areas analysed – and reflect, on one side, a strengthening of the “global actor” main trait of the EU, and on the other side, a consolidation of Korea's position in world politics.

Keywords: development aid, European Union, Korea, normative power, peace talks

Introduction

Europe faces now testing times: the rise of nationalist parties with increased share of votes in EU member states 'elections, an inflow of refugees in need of international protection, UK's negotiations to leave the EU, a U.S. President which only recently showed slight commitment to Europe, deteriorating relations with Russia, and what was, until very recently, a precarious security situation in the Korean Peninsula, due to North Korea's nuclear weapons program. Therefore, faced with both internal and external pressures, the European Union is searching for an institutional solution – member states are debating on whether flexible cooperation is the answer, while others fear that cooperation may result in dominance of powerful countries inside the EU framework.

All of the internal disagreements and domestic pressure had negative consequences for the EU as a global actor, yet it did not affect that much its foreign policy (Grigonis, 2016). When faced with challenging environment, the EU can act relatively fast if it manages to foster a common will among

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its member states and EU institutions (Vimont, 2015). It might seem that joint action in answering to global challenges is still one of EU's key strength and it can therefore be argued that the quest for political global order demands for a stronger, united EU – as only together, the EU member states might have a chance to make a difference and contribute to global order. In this sense, it can be seen that, in what regards EU's relationship with other regions, the EU mainly prefers regional entities and interregional agreements (Hettne and Soderbaum, 2005). Taking the case of the EU-Asia relations, the EU has established interregional relations and, despite the geographical distance, cooperation with Asia - in particular with ASEAN - has been done under the promotion of integration, peace and reconciliation of inter-Asian conflicts. The EU's approach in foreign policy has therefore embraced a vision of promoting regional integration, which is seen as “natural” (EEAS, 2013). However, this is not the only essential element on the EU foreign policy agenda.

Due to the relations between regional actors and crucial involvement of the United States as an extra-regional hegemon, the (Northeast) Asian security dynamics greatly influence the global order. Moreover, Northeast Asia accounts for more than half of the global economy. Having this in mind, the European Union took up the role of a player in Asian regional affairs as it is seen by the fact that the EU is currently one of the largest trading partners for key regional actors as China, Japan and Korea. To give an example, according to the latest data published by the European Commission, in 2017, EU is China's biggest trade partner, while China is EU's second biggest trading partner, with both Japan and Republic of Korea among top 10 trading partners for EU, as the sixth and eighth trading partners (EU Commission, 2018). Both the EU and the Republic of Korea (hereinafter Korea, however South Korea in the case of discussing both North and South states of the Korean Peninsula) have concluded not only an economic agreement (2011), but also focused their collaboration on political and security dimensions, through the 2010 Framework Agreement and Korea's participation in the Common Defence and Security Policy (CDSP) missions.

The aim of our paper is to explore the potentials for encouraging cooperation between the EU and Korea on inter-connected policy matters. Considering both partners, namely Korea and the EU, a theoretical analysis of the cooperation process is likely to draw feasible directions towards the future of the strategic partnership between the two international actors. Our contribution will mainly focus on the EU's role as a global actor, in relation to Korea, in three main areas: economy and trade, development cooperation, and security, in order to see how well the EU-Korea relation fits within the image the EU as a global actor.

Our main research question inquires on EU's status on the international area: What can the EU do in order to consolidate its position as global player? Consequently, the main assumption highlights the cooperation between EU and Korea: in order for EU to consolidate its position as a global player

on the international arena, as a normative power, it needs to deepen cooperation with Korea on a wide range of issues regulated under the Framework Agreement. Following our main inquiry, other secondary questions arise: What are the main areas of cooperation between Korea and the EU? What can the two partners learn from each other in the field of development assistance? What role can the EU play in the recent developments in the Korean Peninsula? Can the EU use its normative power as a tool for deepening cooperation with Korea and influence regional stability and security?

As our research, that is the relationship between EU and Korea, focuses on both traditional and non-traditional dimensions and on the diffusion of norms and ideas within the international system, the paper will mainly use constructivist explanations. Moreover, the concept of normative power will be the starting point of our analysis. In this regard, we will use Manners' tripartite analysis framework (Manners, 2008) in order to make an assessment of EU's principles, actions and the impact of these principles and actions upon Korean Peninsula.

In order to answer to the questions and to attest (or contest) the rationale of our main assumption, the paper analyses various speeches, policy papers and official documents. Altogether, for data collection, open and written sources will be employed for relevant analysis.

1. Literature Review

Researchers have been analysing the foreign agenda of the European Union and explain the actions undertaken by the European leaders through various theoretical lenses and by applying different concepts. Accordingly, taking into account the overall power projection, the European Union/European Community is labelled as "civilian power" due to the pre-eminence of the economic, political, diplomatic and cultural means over the military instruments (Duchêne, 1973, p.19), as a "strategic power" due to the focus on the external environment and dismissal of ethical concerns over issues of security (Hyde-Price, 2006, p. 220) and as a "transformative power" due to the positive impact of the EU policies on the internal policies of the candidate countries (Grabbe, 2006, p. 200). Nonetheless, another important contribution to the theorization of EU's international role and identity is Ian Manners' article, who characterizes the EU as "normative power" due to its ability to prescribe norms, to spread its values and ideas, to define appropriate behaviour and ultimately to set world politics agenda (Manners, 2002, p. 235). In other words, Manners' analysis moves beyond the traditionalist approach to security, which prioritizes military dimension of security, and questions European Union's role in a specific issue.

Taking into account that our research analyses European Union as a global power, with specific reference to its relations with Korea and its involvement in the peace process in the Korean Peninsula,

this section will elaborate on the concept of normative power. Furthermore, as EU's normative power (NPE) is based on the diffusion of norms and not solely on material explanations, a social constructivist analysis is mostly indicated.

As Wendt (1999, p. 170) himself puts it, constructivist approach focuses on the influence of ideas on crafting political agenda, as identities assist in the shaping of objective and subjective interests of actors. As such, unlike in the case of realist and liberal theories, where the focus is on states as dominant units within the international arena or on the state-society relationship (Legro and Moravcsik 1999, p. 10), constructivist theoreticians emphasize both normative and the material structures (Reus-Smit, 2005, p. 188). Therefore, in a social constructivist analysis, the identity of a state is constructed not only through its material capabilities and national interests, but it is mainly influenced by the norms of the international society (Reus-Smit, 2005, p. 196). In this manner, the foreign policy of a state does not reflect only the national interest, but it is a matter of adequate behaviour in the international society.

Moreover, in a constructivist understanding, security is not envisaged as being an objective or subjective reality and it is not simply defined as “pursuit of freedom from threat” (Buzan, 1989, p. 25). Given that no objective form of measuring security has been provided by any security theory and that reality rarely presents us with the opportunity of witnessing unambiguous threatening developments, the constructivist approach thusly calls attention to the inter-subjective nature of security. The constructivist scholars showcase the lack of utility of a universalist definition of the term (Buzan *et al.*, 1998, p. 31) and they argue, in a post-modern vein, that danger is not an objective condition but the effect of an interpretation (Campbell, 2002, p. 500) of a specific context. States make different assessments on potential threats and this entails different responses (Buzan *et al.*, 1998, p. 29). These dispositions influence and shape their interactions in the international system which, in turn, contributes to the construction of different security constellations. In addition, security is not solely understood in a traditional manner, with a focus on the military dimension, but also through other non-traditional sectors: political, economic, societal and environmental (Buzan, 1983). In Buzan's interpretation, military threats retain primacy, yet the other dimensions, with their strong interconnectivity, can contribute to the vulnerability of a state (Buzan, 2007, p. 107).

Moving forward to the concept of normative power and how a state or, in our case an international organization can exert it, Manners equates it with ideological power or “power over opinion”. Adopting a constructivist line of thought, the concept does not refer to the EU's economic prowess or to its developing military capacities, but it rather takes into account its ability to diffuse European values and discourses and the overall impact of these legal and political standards on the international environment. According to Skolimowska, these ideas are correlated by Manners with

standard liberal ideas of peace, democracy, rule of law, uphold of human rights, sustainable development and good governance (Skolimowska, 2015, p. 117). In other words, rather relying on material explanations (military power, economic policies and legal measures) Manners advances a theoretical model according to which European Union influences the international environment with this set of ideational instruments.

Furthermore, in what regards the process of diffusion from the European Union towards a third party, whether the entity is a state or an international organization, Manners comes with six explanatory models (Manners, 2002, p. 244-245):

- Contagion, based on the unintentional diffusion of ideas from the EU to other political actors (the example given in this case is MERCOSUR);
- Informational, which involves the official policies, strategic communications by the EU leaders and initiatives coming from EU's main decision making bodies;
- Procedural - a process which involves an institutionalized relationship (here the author gives the example of inter-regional agreements and the enlargement of EU);
- Transference: when diffusion of norms is related to financial exchanges, aid or technical assistance;
- Overt diffusion- refers to the physical presence of the EU in third states and international organizations (delegations, diplomatic representatives);
- Cultural filter which affects the impact of international values in third states and organizations (processes of learning, adaptation or rejection of norms).

In addition, Manners transforms the concept of NPE to an empirical framework of analysis by providing a method for assessing the European Union's principles, actions and impact (Manners, 2008, pp. 55-58). As such, the focus is not solely on the process of diffusion. The tripartite framework starts with an examination of EU's constitutive values, continues with EU undertakings regarding the promotion of these principles and ends with an impact analysis of EU actions (Manners, 2008, pp. 55-58). In other words, an evaluation of power projection in the case of EU consists of three pillars. First of all, it relies on a clear delimitation of its governing principles and norms, which are peace, democracy, the rule of law, human rights, sustainable development and good governance. The second pillar makes an assessment of EU's policies in relation to the diffusion of these values. Lastly, the analysis takes into account the outcome of these policies, in relation to the third party.

The framework not only makes way for research into EU internal policies and their normative influence on third parties, but also opens up investigations on the concept of NPE in other areas which are still understudied, such as development and denuclearization policies. For the paper's rationale, we will use the framework of analysis provided by Manners in analysing first the EU's power of

norms in not only shaping its development cooperation policy in order to be consistent with the values and norms it has, but also in order to see the effectiveness of the policy and how can working together with Korea in this field can be helpful and beneficial to the goals of development and reduction of global poverty. Secondly, the framework also allows seeing the implications of the EU's role in promoting peace and security in the Korean Peninsula, following the recent evolution of the relations between the Republic of Korea and the Democratic People's Republic of Korea.

2. Main areas of cooperation between the EU and Korea

The diplomatic relations between the EU and Korea date back to 1963. In July 1963, diplomatic relations between the EU (at the time, the EEC: European Economic Community) and Korea were first established. As the new framework agreement was signed, while the 'Strategic Partnership' was declared in the fifth bilateral summit in Brussels in 2010, a wide spectrum of policy fields including trade, environment, climate change, combating terrorism, human rights, non-proliferation of weapons of mass destruction, transports, science and technology, education, agriculture, development assistance, culture, etc. was expected to be covered (European Union, 2010). In the next year, the EU-Korea FTA was provisionally applied, which elevates the cooperative ties between the two sides.

For the European Union, Korea is its fourth trading partner, outside the European continent. Moreover, with a trade surplus for EU for various goods and services (from auto parts to pharmaceuticals products) and with Korea being an important market for EU agricultural goods, the Asian state represents a credible trade partner for the Union. In terms of politics, the relationship between the two partners is also dynamic, Korea being a key ally for several important issues: security (tackling the security conundrum in the Korean Peninsula), economic issues (trade, economic cooperation) and cooperation in international policies (development cooperation) (Marx et.al., 2014, p. 232).

Therefore, in terms of economic power, development cooperation experience and mostly strategic position, Korea is one of EU's best political and trade partners in Asia. For these reasons, each of the areas of cooperation mentioned in the introduction, namely economy and trade, development cooperation, peace and security will be subsequently developed in the following sections of our paper.

Table 1. The history of cooperation between EU and Korea

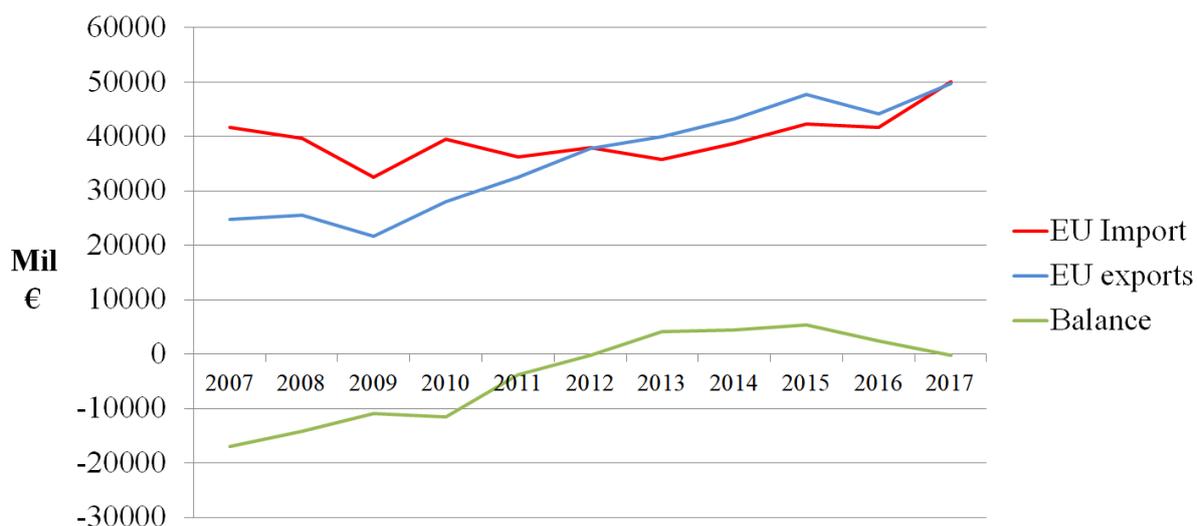
Date	Event
07. 1963	Diplomatic relations between the EU (then the EEC: European Economic Community) and Korea were established.
10. 1996	1996 Framework has been settled which is to provide a legal and sound framework to further the cooperation from both sides in global issues including politics, economy, education, culture, society and administration
2007	EU and Korea started negotiations a bilateral FTA
05. 2010	The new framework agreement was signed.
10. 2010	The fifth bilateral summit held in Brussels. ‘Strategic partnership’ was declared.
07. 2011	The EU-Korea FTA was provisionally applied.
06. 2014	The new framework agreement entered into force
12. 2015	The EU-Korea FTA formally entered into force.

Source: Marx *et al.*, 2014

2.1. Expectations and perceptions of the impact of the EU-Korea Free Trade Agreement

After the application of the EU-Korea FTA in July 2011, both sides had a high expectation in achieving a goal which brings significant benefits to the economies. The EU-Korea FTA, the EU’s first trade deal with a country from Asia, was the most ambitious trade agreement implemented by the EU so far, which shows the high expectation from the EU side. (European Commission, 2017) Korea could also expect positive outcome from the FTA. Korea was the only country that has signed FTA with European Union, which means it has preoccupied the EU market than other Asian countries such as Japan, China or ASEAN.

As EU’s first trade deal with a country from Asia, the EU-Korea FTA was implemented on 1 July 2011, after increasing awareness of the significance of East Asia in its economic point of view. The fact that Korea, the only member of OECD from Asia with Japan, was one of the most advanced economies in Asia based on the dynamic economic growth met the standards when being chosen as a proper FTA partner of EU. Moreover, a high degree of commitment combined with a higher level of development can be considered one of its strengths. As the most ambitious FTA ever implemented by the EU so far, a substantial outcome was expected by this FTA and according to the annual reports from European Commission, it is considered that both parties has gained satisfying economic results for the first 6 years of application, from the perspective of EU.

Figure 1. EU Trade Flows and Balance - Annual Data 2007-2017

Source: Eurostat–Statistical regime 4, 2018

EU exports to Korea has increased by 59.2 %, from 28 billion EUR in 2010 to 44.5 billion EUR in 2016, while EU imports from Korea have increased from 39.5 billion EUR in 2010 to 41.1 billion EUR in 2016, which indicates that the EU's 11.6 billion EUR trade deficit with Korea in 2010 has turned into a trade surplus of 3.1 billion EUR in 2016 (European Commission, 2017).

When comparing the EU export and the EU import in Graph 1, the EU export has almost doubled for the last ten years since 2007 while the EU import has remained the same until 2016. The two lines (export and import) intersect in the year 2012, the following year when the FTA was implemented as demonstrated in graph 1, which proves that the results have met EU's high expectations. Under the influence of a prolonged financial crisis in Europe, the economic recession in EU has continued over a long period of years. The recession has weakened the consumer confidence and it led to the decrease in import, which influenced upon the export and trade deficit of Korea towards EU.

Remarkable figure is found in bilateral trade of motor vehicles and car parts. From 2010 to 2016, the EU exports of motor vehicles have increased by 244%, as derived from the high preference by Korea on German motor vehicles. The EU has sold 64,200 units with 1.68 billion EUR in 2010 and, in 2016, has sold 176,900 units with 5.79 billion EUR, which accounts for 13% of total exports to Korea (European Commission, 2017, p. 5).

After a period of 7 years, consequentially, the EU gained more satisfying results than Korea. As satisfied with the previous case with Korea, the EU has finalized negotiations for trade agreement with Japan on 8 December 2017. After the finalization of EPA (Economic Partnership Agreement),

it is expected that Korean companies including auto companies would confront the severe competition with Japanese companies towards Europe. Not only EU exports, but also EU imports from Korea have increased from 2.48 billion EUR to 4.79 billion EUR from 2010 to 2016, which is by 53%. It accounts for 12% of total imports from Korea (European Commission, 2017, p. 5). Korean companies began to prepare a countermeasure but it seems hard for Korea to avoid the severe damage derived from EPA between EU and Japan.

The FTA is a bilateral agreement. As the trade barrier in Korea is lowered, the one in EU is also lowered to that extent. When negotiating the agreement with the new nations, making provisions for the upcoming situations from existing is recommended. In order to be a leading global leader, EU needs to seek solutions to reach a mutually acceptable outcome for both sides.

3. The EU and Korea – a future partnership for development cooperation

Development cooperation incorporates many forms and meanings. From controlling diseases and providing humanitarian relief and eradicate hunger to ensure good governance, education and sound political reforms, the field tackles these issues through allocation of grants, loans, or technical assistance (OECD, 2017). Development cooperation, as a field, is in an on-going change, as we are witnessing today an increased diversification of development models, due to the appearance of new players on the donor arena and because of increased attention given to establishing partnerships for development, particularly for triangular cooperation (Busan Declaration, 2011). In this context, we have the European Union as the world's largest aid donor, with over half of the world's development aid coming from the EU and the member states. According to EU statistics, in 2013, the EU spent more than 50 billion EUR on development aid, money which targeted the entire globe¹. In 2016, according to the Organisation for Economic Co-operation and Development (OECD), the Official Development Assistance (ODA) provided by both the EU member states and the EU went over 70 billion EUR (OECD, 2017). This means that both the European Union and the member states consolidated their leading aid donor position in the world.

As highlighted in the New European Consensus on Development (2017), the objectives of the EU's development policy are poverty reduction and alignment with the 2030 Agenda. Moreover, emphasis is put on the promotion of partnerships for development (EU Commission, 2017, p. 37). The 2012 Agenda for Change outlines policy guidelines that are complementary to the main

¹ Data provided by the European Union website (retrieved from https://europa.eu/european-union/topics/development-cooperation_en).

objectives of the Consensus, calling for stricter aid conditionality, focus on the poorest countries and engaging the private sector; it also emphasises as norms the respect for human rights, democracy, rule of law, and good governance, together with the principles it encompasses.

On the other side of the coin, we have Korea, a relatively new donor, which entered into the OECD - Development Assistance Committee (DAC) in 2010, a country which remarked itself as a successful example of unrelenting economic development, reaching in a few decades the status of donor country. For Korea, it is not only the status of donor and the DAC membership which grabs the attention of researchers and academia – Korea becomes attractive to states and international institutions in order to develop partnerships in the field of development cooperation. With an ambition to reshape its ODA system in order to comply with DAC standards and an experience in transition from recipient to donor state, as well as openness in entering South-South or triangular cooperation (ECOSOC, 2008, p. 13), Korea can be seen as aligning with the EU development cooperation agenda as well.

However, there are criticisms raised in the specialised literature on Korea's development assistance policy – mostly focusing on the prevalence of national strategic economic interests in giving aid (Chun *et al.*, 2010), on the lack of transparency, as it has yet to fulfil its commitments to the International Aid Transparency Initiative (IATI), on the weakening of the Korean policy coherence in response to the 2030 Agenda for Sustainable Development, and on the lack of interest in capitalising civil society's technical expertise, thus losing the normative framework of the ODA policy (OECD Peer Review, 2018). Moreover, Korea's focus is mainly on aid allocated to Asia, which has been criticised because it is seen as an alignment with Korea's interests (allocating aid because of economic gains, not because of targeting the poorest countries in the region) (Marx and Soares, 2013, p. 253).

Yet, following the lines of the same OECD Peer Review, Korea is seen as one of the “engines behind the global development agenda”, having an essential role among all middle powers. Its trump card lies in development effectiveness and, as OECD mentions, Korea is capable of gaining the main role on the international arena as a channel between rich and poor countries and getting involved in international consultations in the ODA field (OECD Peer Review, 2018, p. 16).

In this section, starting from the supposition offered by Birchfield – that the EU's approach to development cooperation is an endorsement of the conceptualization of the NEP – an analysis of the way both the EU and Korea cooperate will be made – having as main idea the fact that the EU can further realize its normative potential through direct cooperation with Korea, by building on the experience which Korea gained in the field of development cooperation while working with the EU member states.

3.1. Conceptualization of NEP – Development Cooperation

For the European Union, Asia also represents an interest, as the region still has almost two thirds of the world's poor. Yet Asia is a region of discrepancies, as it is also home to many emerging economies. In this sense, the EU is not only an aid donor in the region, but also a strategic partner, working together with emerging economies and also embarking on regional cooperation in order to achieve progress.

If we are to compare the EU aid with other donors, such as the United States, we can see the EU's commitment for respecting international recommendations on improving aid flow and achieving the Millennium Development Goals (MDGs) and, currently, the Sustainable Development Goals (SDGs). Over the last decade, the EU has been instrumental as an international donor in advancing a great number of critical global issues in the field of development. OECD-DAC last peer review on the EU considered it as "a formidable player in global development", underlining the fact that the EU institutions are critical in order to create a harmonious and coherent development policy (OECD-DAC Peer Review, 2012, p. 28).

There is a plethora of writings on the EU's development policy, yet there are not that many specifically on the connection between NEP and this particular external policy of the EU. Based on the same tripartite method of Manners, explained in the theoretical part of our paper, Birchfield demonstrated that the EU's development policy is an empirical proof of the normative power of Europe (Birchfield, 2011, pp. 141-161). The author stresses out that the EU's approach to development cooperation is a testimonial to the conceptualization of the NEP – and in this sense, it is not about the bilateral aid given by EU member states, aid which is criticised oftentimes as reflecting the national interests of the donor, but it reflects the EU's collective efforts in the field of international development.

The conclusion of Birchfield, as seen summarised by us in the table below, is that the European model for ODA is, overall, in accordance with the notion of the European Union as a normative power – with some exceptions, such as aid efficiency and trade assistance measures that the EU follows in regards to recipient states.

Table 2. Empirical validation of NPE through development policy (DP)

Tripartite method ²	Meaning	Analysis	Evidence in development policy
Principles	EU constitutive principles ³ becoming objectives in world politics		<ul style="list-style-type: none"> - Key principles of EU, equality and solidarity, are enshrined in the EU's founding treaties. - EU external development aid and trade are core external policies of the EU. - Objective of EU DP (Lisbon Treaty, 2007): <i>“Foster sustainable economic, social and environmental development of developing countries, with the aim of eradicating poverty.”</i>
Actions	EU promotion of constitutive principles as actions and policies in world politics	Discourse and Development policies in the EU	<ul style="list-style-type: none"> - EU projects norms and values externally by emphasizing the benevolent nature of its foreign policy and by linking DP to promotion of fundamental freedoms, consolidation of democracy, strengthening respect for human rights and rule of law.
Impact	The impact and outcome of the actions taken by the EU	Empirical evidence	<ul style="list-style-type: none"> - Doha Development Round (<i>EU's normative principle of sustainable peace</i>) - Commitment to UN MDGs and Development Index

Source: Birchfield, 2011

3.2. Engagement on development cooperation between the EU and Korea

Engagement on development between Korea and the European Union has not evolved as much since the establishment of the commitments under the Strategic Partnership Framework Agreement – to be specific, concrete collaboration has been done at the level of EU policy via dialogue and meetings, as well as at the level of joint bilateral cooperation with the EU member states. As of now, there has been no concrete collaboration between EU institutions and Korea in the field of development cooperation.

As Sung-Hoon Park assumes, the interest in getting involved into such cooperation is not that high, not only because of the EU's priorities, but also because of Korea's focus on the internal reform inside the ODA policy and due to the EU being seen not as important as it is in reality by the Korean policy makers (Park, 2014, p. 4).

It is however true that Korea started to collaborate with other donors –EU member states – and Park mentions here Germany, France or Spain, collaboration which developed on many areas. In his

² As presented by Ian MANNERS, (2008) ‘The Normative Ethics of the European Union’, *International Affairs*, 84 (1), 45–60;

³ Values and principles of the EU, as seen through the Lisbon Treaty (Reform Treaty), 2007: democracy, the rule of law, universality and indivisibility of human rights and fundamental freedoms, respect for human dignity, equality, solidarity, respect UN principles and international law;

paper, Park mentions Germany as being the oldest partner for Korea in development cooperation, the two countries managing to collaborate even in triangular cooperation (Park, 2014, pp. 4-5). In this sense, triangular cooperation is also preferred by other donors, when talking about cooperation with Korea. Having in mind that Korea is a DAC member and started to reshape its ODA policy in order to fit the DAC perspective, Korea became a stable partner for cooperation in the field of development – the country represents a window for European countries to increase their impact in the Asian region through the deepening of pre-existing partnership with an Asian regional actor.

Following the natural way of how Korea started working with bilateral European partners, it can be seen how it managed to reach a developed partnership level through developing capacity-building projects and joint cooperation activities with other EU member states. Following this rationale, Park also emphasises that Korea is a reliable partner due to the fact that Korea has expertise, experience and can work very well with others – yet, it can also learn at the same time from the European counterparts many valuable lessons in areas where Korea is not strong as donor.

4. EU's role as a normative power in the Korean Peninsula

As showed by the official documents, the EU's essential interests are not exclusively shaped by objectives established by member states, foreign policies of actors from its immediate proximity or security actions undertook by a traditional ally (U.S.); they are also influenced by East Asian security developments (Council of the European Union, 2012). By all means, as it was underlined in the previous sections, when it comes to the EU's relations with East Asian states, the economic ties are prioritized. Yet, the EU's global agenda involves more than just economic exchanges. In the case of Asian states, the most recent common foreign policy directive emphasizes direct connection between European prosperity and Asian security (Council of the European Union, 2016, p. 37). In light of this argument, peace and stability in East Asia are prerequisites for European prosperity, as policymakers encourage economic exchanges and an upgraded security role for the EU. Therefore, security developments in the Korean Peninsula, especially recent evolution of the North Korean dossier, become even more important for the EU's agenda in the area. Using the tripartite framework (guiding principles, policies and impact of these actions) this section delves into European Union's agenda in what concerns the North Korean security quest.

In general, when discussing the EU's policy directives towards North Korea, member states promote a policy of critical engagement. In other words, this course of action adopts “carrot and stick” formula, by combining on the one hand political dialogue and humanitarian assistance programmes and, on the other hand, diplomatic pressure and targeted sanctions (Ferenczy, 2017). On this subject,

in accordance with its democratic norms and values, EU continues to show its support for a non-proliferation regime, an upholding of international law and an attenuation of tensions on the Peninsula. Nonetheless, when it comes to Democratic People's Republic of Korea (DPRK), a particular attention is given to human rights issues.

Acting in accordance with the UN resolutions, especially those presented by the UN Human Rights Council, EU institutions have been constantly condemning human rights violations by the North Korean regime. The latest annual report, presented by the Foreign Affairs Council, mentions severe and systematic violation of human rights and decries the lack of an accountability mechanism for these abuses (FAC, 2017, p. 205).

Even so, moving to the second pillar of our analysis, when it comes to European policies *per se*, EU institutions have been closely collaborated with other actors in order to preserve the issue on the international agenda (Ferenczy, 2017, p. 4). One such example is the UN Human Right Council resolution A/HRC/31/L.25 from 2016, which was initiated by EU and Japan and underlined the deficiencies within the North Korean state. European Parliament also raises awareness in regards to North Korea's situation: hearings and debates are organized inside the international affairs committee (AFET) and human rights subcommittee (DROI), while a delegation established in 2004 organizes inter-parliamentary meetings, mostly with South Korean representatives, and discusses on a regular basis the situation from the Peninsula.

Strictly referring to the diplomatic tools, the EU does not have a permanent delegation in North Korea, as member states assure local representation on a rotating basis. Therefore, since the EU does not have direct representatives in DPRK and it utilizes the diplomatic channels of its member states, we cannot talk about overt diffusion.

Taking all these into account and assessing the diffusion of European norms towards North Korean state, the only model applicable from Manners' framework is the transference mechanism. This is validated by the fact that the critical engagement policy combines political dialogue and economic incentives-mainly humanitarian assistance- with sanctions. The latter came as a response to the nuclear tests and DPRK's nuclear developments and reinforced UN sanctions regime. One such action was taken last year in October, when the Foreign Affairs Council adopted a series of EU autonomous measures: total ban on EU investments and total ban on export of refined petroleum products towards North Korea (Council of the European Union, 2017). Recently, the Council updated its list of sanctions with more individuals on a black list involving illegal financial support for DPRK nuclear programme (Council of the European Union, 2018).

Lastly, in what concerns the third variable from Manners' framework, the outcome of EU policies, we cannot correlate it with strong impact upon North Korean political landscape. In spite of

international commitments pushing for denuclearization and European efforts to engage with North Korean regime, especially in relation to human rights issues, the development of nuclear programme was resumed two years ago, while the political dialogue with the European leaders reached a relative stalemate in 2015.

It is well known that the EU was not included on the Six-party Talks Framework. Yet, occasional political dialogue used to exist between the two entities. Institutionalized in 1998, meetings were held almost every year. However, the last one was in 2015, just 6 months prior to the resuming of North Korean nuclear tests in January 2016. Back then, in accordance with its critical engagement policy, an EU delegation visited Pyongyang and had discussions with North Korean authorities on issues pertaining to regional security (EEAS, 2015). As such, EU representatives tried to persuade North Korean leadership on subjects that were mainly promoting non-proliferation and uphold of human rights.

After a period of nuclear tests and international sanctions, only fairly recent, North Korean leadership has announced its plans of denuclearization and has reopened the diplomatic channels. However, negotiations are still conducted on a regional basis rather than international framework as Kim Jong-un reopened the discussions mainly with South Korea, China and U.S. In spite of the positive message coming from EU High Representative, immediately after the Inter-Korean Summit from April 27, the role of the EU is rather limited when we discuss about direct political dialogue between the EU and DPRK, especially since sanctions against North Korea are still in force. Practically, through Mogherini's statement of support for full denuclearization of the Korean Peninsula (EEAS, 2018), the EU is only reinforcing its previous position of critical engagement towards Asian security.

Conclusions

As discussed throughout our paper, there is enough untapped potential in the EU-Korea cooperation, and the existing research on this issue – scarce yet all-encompassing – indicate that there are some areas of interest where both strategic partners can invest. The ambitions of the European Union and of Korea seem to align in trade and economy, development cooperation and security and peace promotion and cooperation between the two in these main fields analysed in our paper can only lead to achievements on both sides of their main objectives: in the case of the European Union, to strengthen the “global actor” main trait, and for Korea, to consolidate its position in world politics as a DAC member, as a booming economy and a reliable, peace-promoting state on the international arena.

Therefore, there are some feasible directions towards the future of the strategic partnership between the two international actors. Firstly, in order for the EU to consolidate its position as a global player on the international arena, as a normative power, it needs to deepen cooperation with Korea on a wide range of issues regulated under the Framework Agreement. The FTA with Korea was the first of its kind, a deal under the ‘Global Europe ‘initiative. By looking beyond the effects measured in trade and investments, the FTA contributed to the maturing of the Korean economy and the purchasing power of the Korean society. The areas of cooperation mentioned in the contents of both the Trade Agreement and Framework Agreement open up on-going cooperation lines between the two and also become benchmarks for future successful deals with other countries or institutions.

Secondly, as both partners have strong shared commitments to pursue a global development assistance agenda, cooperation in this area needs to evolve from partnerships with the EU member states to concrete collaboration with the EU institutions. As seen above in our paper, by analysing both the ODA policies of Korea and the EU, we can see that both have to large degree similarities in what regards their development assistance objectives. In this regard, there is significant untapped potential for collaboration between the EU (institutions) and Korea. Both the 2010 Framework Agreement and the 2012 Summit Declaration represent the start for such collaboration, but the entire cooperation should be done in a framework which also takes into account the bilateral economic relations regulated through the 2011 Korea-EU FTA, discussed in the earlier section of our paper.

Under the umbrella of these strategic documents, both partners held policy consultations on development cooperation – with the 5th ROK-EU policy consultation on development cooperation taking place in 2017. Korea has a unique status for the EU and this particularity provides a thorough foundation for deepening the already-existing relations, including international development cooperation. However, cooperation in this field is not only reflected through consultations and official documents – commitment is seen in the activities done together, and in this sense, the EU can open triangular cooperation having as partner Korea. This can be build based on existing experience of such cooperation between Korea and the EU member states. Moreover, both can cooperate by learning from each other – providing regional expertise and sharing knowledge. Another alternative is offered by the global agenda for development which encompasses many issues that can be tackled by the two strategic partners through join projects.

Following the assumption presented by Birchfield – that the EU’s approach to development cooperation is a testimonial to the conceptualization of the NEP – , the EU can further realize its normative potential through direct cooperation with Korea, by building on the experience which Korea gained in the field of development cooperation while working with the EU member states. In this sense, by translating policies into actions, the EU can gain a critical weight to respond to global

challenges by setting up joint objectives and giving encompassing solution to global challenges to development cooperation. The role of coordinating actions of different donors strengthens EU's position as a global player.

Lastly, given the importance and the recent evolution of the North Korean dossier, the EU should encourage multilateral dialogue and participate in high-level discussions regarding the peace process in the Korean Peninsula, while pushing for DPRK to sign and comply with all major non-proliferation treaties. The focus is still on the diffusion of norms (non-proliferation regime and human rights), yet in the absence of signed commitment by the North Korean regime, EU continues to maintain economic sanctions against DPRK. In this case, EU should continue this policy of pushing for DPRK to sign and comply with all major non-proliferation and human rights treaties. Yet, in order to further define a truly global agenda, on the one hand, it should work on reopening of direct political dialogue with North Korean leadership and, on the other hand, it should encourage multilateral dialogue and participate in high-level discussions regarding the peace process in the Korean Peninsula.

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Revised EU approaches to development cooperation. Case study: triangular cooperation in Bangladesh

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Abstract

As the paper assesses, first of all, the role of the European Union (EU) in the development cooperation (ODA) agenda, oriented specifically towards the South Asia region, the analysis will try to identify the opportunities for improving the policy, on one hand, and indicate areas for cooperation between actors involved directly in pursuing poverty eradication and promoting core human values. The main area for cooperation between donors in this case is good governance, due to the chronic problems that the recipient state, Bangladesh, encounters in matters of governance, corruption and rule of law. Therefore, by pinpointing the main theoretical concepts – South-South Cooperation (SSC) and Triangular Cooperation (TrC) – and continuing with a brief policy analysis of the EU ODA in relation with South Asia and Bangladesh and including the Japanese ODA and TrC experience in South Asia, the paper will try to offer arguments in favour of EU to pursue other types of cooperation in the field of development aid.

Keywords: Bangladesh, EU, Good Governance, JICA, ODA, Triangular Cooperation

Introduction

The current international aid structure is being challenged by the increasing presence of non-Western actors. The rising influence of emerging actors in global affairs reduced European Union's aid's importance for supporting development, as well as EU's voice in decision-making processes in the field. Currently, the global development agenda expanded, moving from the traditional development aid perspective – today, we are talking about security, migration, good governance, trade, environmental issues and investments as being part of the global cooperation agenda, together with economic development and humanitarian aid. This change of the global power structures should have created normative pressures on the EU and improve both coordination and coherence of its development policies. Moreover, as EU members are focusing more on tackling the growing internal challenges, this resulted in a weakened EU that did not make success in dealing with the progressing global development agenda. Even so, the EU continues to be one of the most important global players

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in the field of development – not only as an actor, but also as a system of shared norms and values which influence other actors on the global arena. In addition to being a major source of development aid, the EU embodies the world's largest single market. Moreover, the EU's impact on reform agendas of developing countries is the strongest out of any bilateral donor, which can also be reasoned by the historical ties that EU member states have with recipient countries. However, the European Union, although it continues to be one of the region's largest trading partner and actively supports poverty eradication, social cohesion and regional cooperation, does not concentrate enough on the external economic relations with Asian countries, and has the capabilities to provide extended assistance to a region that is of major interest to other international players and has its own emerging powers that want their voice to be heard.

Moreover, the development cooperation area is in an on-going change, as new players are appearing on the global arena - an increase in development actors means a diversification of models for development, moving away from traditional and focusing on emerging powers (Walz and Ramachandran, 2010). Moreover, this also means a reorientation towards building partnerships and developing South-South (SSC)/ North-South-South cooperation among donors and recipients.

Since the revival of the SSC, traditional aid donors also modified their approaches towards disbursing aid, reaching collaboration with Southern partner countries through schemes which include triangular cooperation. Therefore, donors such as Japan engaged in triangular cooperation, as well as other several other EU member countries – yet, this modality has not yet become fully consolidated inside the European Union institutions. Two main reasons can be advocated: first, TrC is not a conceptually clear concept and it does not always have positive implications for aid effectiveness – two critical traits of EU development assistance policies.

As the paper assesses, first of all, the role of the EU in the development cooperation agenda, oriented specifically towards the South Asia region, the analysis will try to pinpoint the opportunities for improving the policy, on one hand, and indicate areas for cooperation between actors involved directly in pursuing poverty eradication and promoting core human values and norms. The main area for cooperation between donors in this case is good governance, due to the chronic problems that the recipient state from South Asia (namely, Bangladesh) encounters in matters of governance, corruption and rule of law. Asia and Bangladesh respectively are chosen mainly due to the fact that the region contains developing, emerging and developed states, where interests of various countries clash when discussing about development and financial aid.

Therefore, the research questions which I have in mind are: What are the challenges to EU's development cooperation policy? What can the EU do to overcome the international challenges posed to its ODA policy? Why should the EU become more involved in Southeast Asia? Who are the donors

interested in South and East Asia? Can comprehensive partnerships be an answer to increase the EU's potential in the field of development cooperation? These represent the main questions which should reflect the aim of my paper: to analyse the EU's experience in providing aid and highlight the role it can have as a global actor if it manages to overcome the challenges posed to both its development cooperation and global development agenda.

In order to answer to these questions, the paper will start by pinpointing the main theoretical concepts –SSC and TrC– and continue with a critical opinion on good governance, applied directly onto Bangladesh. Moving on, the model the Japanese ODA and TrC experience in both the region and area of cooperation will be assessed, followed by an analysis of the EU official development assistance and other relevant documents, in relation with South Asia and Bangladesh, drawing up several conclusions that can make way to other researches on different approaches to development cooperation that the EU can approach in the future.

1. Theoretical perspectives

South-South cooperation (SSC) and Triangular development cooperation (TrC) have gained momentum in the agenda for international development cooperation; however, SSC is not a new concept, being in discussions for many years. All the meetings that took place in order to discuss SSC and TrC provided successful evidence-based interventions by developing countries in order to achieve the Millennium Development Goals (MDGs), stressing the importance of diversity of development, aid/development effectiveness, transparency and monitoring. To keep it short, all these events contributed greatly to the shift in perspective towards result-based development outcomes, and encouraged traditional development actors to debate with middle income countries and emerging economies that have the unique experience as both providers and recipients of aid.

SSC is gaining importance among recipients and donors alike, because of the belief that development economies have better insights into their peers' development needs and their diverse experience and shared practices can lead to a win-win situation for both parties involved. The concept's importance arose as a value for development since the 1960s, focused on how a developing country's experience can be emulated in other developing countries. The first time the concept started to be defined was in 1977, when a resolution adopted by the United Nations (UN) tried to define the objectives of Technical Cooperation among Developing Countries - TCDC (UN Resolution, 1977). A year later, the Buenos Aires Plan of Action (BAPA, 1978) was adopted providing, thus, a plan to implement TCDC. The objectives and recommendations organized by the plan of action provided the basis of what is today known as SSC. Mutual benefit, fostering national and collective self-reliance

are some the basic principles that stand at the basis of SSC. The Plan of Action offered the starting point for developing countries to move beyond traditional cooperation methods, therefore technical cooperation provided the different perspective used in order to correct the asymmetrical relations between countries. Technical cooperation was seen as a process politically motivated and systematically implemented, which takes into account the equality between partners, respect the local level of development and non-interference in the domestic affairs of one another.

If the concept of SSC became known during the 70s, it was mainly as a result of the countries which came out of colonization and struggled immediately with poverty (Kumar, 2008). Not having access to money and resources made these countries looking for a solution, via self-reliance. Countries therefore organised themselves into compact groups and set up annual Summits in the 1980s. Besides organising forums and meetings, SSC promotion took into account as main framework the creation of preferential trade agreements among developing countries, as well as other institutions which could allow for development of their capacities. This is how developing countries started assisting each other.

However, SSC lost interest because of the financial crisis during the late 1980s and 1990s, as many developing countries were forced to use the Western institutions (the Washington Consensus) for financial assistance, imposing thus conditionalities in order to better integrate the recipient countries within the world economy. It is how many countries started to change their policies in order to liberalize trade and comply with the Brettonwoods system. Some authors saw this as the trigger for the “periphery” talk in the development cooperation field.

Today, the South managed to emerge as a key player in development cooperation policies, though there are still disparities in the South. Developing countries in the South also face major challenges in achieving all the internationally (North) agreed goals and commitments. Because of these reasons, countries within this group can help each other in sharing their development experiences which they have accumulated. In this manner, SSC gained new importance and meaning.

2. Bangladesh – critiques on good governance

For the rationale of this paper, as good governance is also a main area of interest not only for the EU, but also for other main donors providing aid in Bangladesh, the next section will start with an evaluation of the good governance concept as seen in Bangladesh.

Bangladesh could be seen as one typical example of a developing country in Southeast Asia: a large population with low per capita income, agriculture-oriented economy and trade deficit; moreover, it only recently shifted its approach towards good governance and development, because

of foreign assistance and imposed conditionalities aiming at reforms (OECD, 2017). The core challenges revolving around corrupt practices and non-transparent bureaucracy result in an ineffective and inefficient governance (World Bank, 2016). Successive World Bank reports show low score for the country against all the main governance indicators.

In Bangladesh, corruption is seen as a huge impediment to both growth and investment – just by analysing Transparency International, you can notice that Bangladesh is at the bottom of its Corruption Perception Index - reports from the same organization mention that the level of corruption has reached high levels mainly due to a politicisation of state institutions (Transparency International, 2015).

Moreover, the cultural barriers existing in the region, as well as the Asian values that clash with the Western ideals, put pressure on establishing sound reforms aimed at improving governance (Walton and Schbley, 2013, p. 6). Yet, Bangladesh is still committed to good governance, while donors still continue to provide aid (IMF, 2013, p. 30). It is to be noted that the top donor mentioned in the 2017 OECD report is the International Development Association, which focuses also on good governance and institutions building; moreover, Bangladesh is one of the largest recipients of IMF technical assistance. Therefore, it is only pertinent to ask ourselves why donors promote good governance despite various barriers which enforce poor governance in recipient states.

Moreover, there is the idea that good governance is different and particular; therefore, it might seem pointless to apply it in societies with high cultural legacies and traditional values. This position has been frequently noted by various writers, such as Chris Brown, especially when dealing with the universalism versus relativism conundrum of human rights. The argument enforces the belief in liberal ideals, where human rights are pillars for civil society and their value is universal; thus, scrutiny of human rights has become a conditionality imposed by all donors, especially those which stress upon good governance and rule of law. As such, there is a connection between respecting human rights, ensuring good governance and achieving sustainable development. Positive correlations can be seen between high incomes and good governance; yet, sustainability is achieved only when freedoms are granted (Kaufmann, 2006, p. 15). In light of this argument, the less traditional a country's culture is, the more likely it is that the country has good governance. This implies that attempts to impose a standard of good governance on particular nations might inhibit economic development, because the particularities of such culture are incompatible with the good governance concept (Licht *et al.*, 2007). Nevertheless, the initial premise has fallacious arguments, starting from the idea that good governance promotes a particular society, and that it is futile to address it in countries with different values and traditions.

First of all, it is misleading to assume that good governance aims at promoting a particular society. Governance manages the rules of the game itself, meaning the internal institutional process. Good governance however, deals with other aspects, aimed at institution and capacity building. Ensuring the minimal conditions for governance is therefore critical in allowing development. Yet, this model applies to the intricacies of the state, not the society per se.

The idea of society should not be confounded with the idea of a state. It is the society itself which engages into an agreement with the sovereign power and yet it develops according to its own nature and perceives its own identity (Sartori, 1973, p. 15). Thus, the state and the political system develop inside societies. In my opinion, good governance is a development model, aimed at reforming the state apparatus, using technical and financial incentives.

Second of all, good governance moves beyond traditions, as it is a process which aims at reforms in the governmental apparatus, turns towards the voice of people and emphasises accountability- both vertical and horizontal (Smith, 2007, p. 202) - and denies violence and corruption in order to promote transparency, efficiency, effectiveness and rule of law. One might reasonably think that all these principles can evolve in developed states with stable democratic systems. This is not entirely false, since the application of this concept in developing or underdeveloped countries can negatively affect the citizens (Jabeen, 2007). The issue of good governance transferability is therefore a serious matter, which is why Merilee Grindle argued for a different approach (Grindle, 2004). Good enough governance is therefore seen as a reform model adapted to developing states, where the vast majority of the population is poor and voiceless.

Last, but not least, it is needless to assume that a closed, traditional society is incompatible with human liberties and rights. As such, good governance and democracy need to take into account the importance of culture, and all three should be treated as universal values, while respecting one another. Moreover, since it is widely accepted that today's world's states are both confessional and ethnically heterogeneous, cultural diversity needs to be recognised as integrant part of societies.

3. Japan and ODA: supporting South-South and Triangular Cooperation

The Japanese ODA program began in 1954 and the ODA loan program launched four years later. At that time, because of Japan's issues with its balance of payments and export promotion, the ODA loans were intended to promote Japan's exports to developing countries, playing their role in sustaining the developmental state. During the 1960s, Japan started to use ODA as an economic tool, using "tied aid" as a norm, mostly because it lacked military power. The 1970s also characterised the Japanese ODA system as having mostly tied aid, yet pressures from international development norms

started to shift aid towards human needs (Japan White Paper on ODA, 2017). The negative criticisms brought the Japanese ODA policy to untie all aid by 1980s in theory as in practice aid given through private investors continued to be tied (Hook *et al.*, 2005, p. 205).

In what regards aid allocation and amount, Japan increased its ODA and became the number one donor in the world until the Asian Economic Crisis in 1997. The success of the Japanese developmental model as mentioned in the introduction was even recognised by the international community (as seen in World Bank's report). Therefore, the ODA policy continued to change according to the global trend. The most important motivation behind such an abrupt shift, taking into account that Japan's stance was to ensure economic growth would be the development of the human security concept.

Japan is the 4th major contributor of the Development Assistance Committee (DAC), in terms of volume (OECD-DAC, 2017). Because of its development experience, Japan promotes ODA as a catalyst for private sector investment and to sustain tax systems, trade performance and integration in the world economy. Yet, the Japanese ODA allocation has been often criticised for the viewpoint behind its official development assistance motivation. The main critique is relates to how Japan emphasises the need to develop the recipient countries' economic environment properly for business; developing countries with business-friendly environment are attractive to multinationals that seek to establish production facilities in such states (OECD-DAC, 2017, p. 17).

The Japanese development model is rooted in history and motivation outlined in the preceding section. Yet, the key features are discussed below. Interestingly though, the model, even if it adapted to the international development arena and suffered changes in policy priority and aid modalities, never lost inconsistency and remained sturdy compared to other major donors. The Japanese ODA policy is based on the non-intervention principle, grounded in the idea of self-help, as seen in Japan's Official Development Assistance White Paper 2006-2016. Self-help was instrumental during the economic recovery and development of Japan. Therefore, the principle was to be reflected into the aid policy as well, emphasising the idea that states request aid and have ownership over the aid disbursed. Thus, the Japanese aid has fewer conditions imposed on aid disbursements than the aid allocated by major donors (Lancaster *et al.* 2010, p. 29). In light of this argument, non-interference is also an ingrained principle, pre-dating Meiji era, and relates to the idea that it is best not to entangle, not because of a lack in initiative but because the one which receives your help ends up owing you, having an obligation which is limitless in essence (Benedict, 2005, p. 111). Therefore, it can be seen that in the ODA practice, the principle of non-interference and self-help is equal to the idea that recipient does not need to shoulder a debt of gratitude to Japan, but needs to have initiative and act.

To support this argument, Arase believes that the principle of self-help leads to recipient states taking pride in their development achievements (Arase, 2005, p. 11).

However, the historically strong loan prioritization of the Japanese ODA has been subject to international concerns, because it might result in debts for recipients, especially poor states (OECD, 2010). Yet, it should be noted following the recent OECD report that Japan follows a trend of increased technical cooperation via grants and decreased loan usage in ODA disbursement (OECD, 2017). In what regards grants, technical cooperation is mainly prioritized to human development and capacity development (JICA Report, 2017). Dispatching experts and trainees is therefore the main mechanism through which JICA ensures that developing countries have their own personnel trained.

For Japan, TrC is not only a policy regulated by projects or bilateral commitments with recipients and donor – the concept is firmly positioned in the main national ODA policy and ODA planning documents of Japan and the Japanese International Cooperation Agency (JICA). As reported even by OECD/DAC Review (OECD, 2013), a majority of DAC bilateral donors lack TrC policies in their aid framework, with the exception of Spain, United Kingdom, Germany and Japan. Japan has policy framework for both SSC and TrC regulated.

TrC is also emphasised in Country Assistance Policies and mid-term plan of JICA, alongside the Japanese ODA Charter. This commitment to such instrument of development can be traced back to 1974, when Japan first implemented its first TrC. Since 1974, Japan managed to receive over 4,000 participants from all around the world in its main TrC instrument – JICA triangular training programme (Honda, 2014, p. 1).

Japanese TrC includes not only training programmes, but also expert exchanges and technical cooperation projects that can combine a variety of development aid modalities (Honda, 2014, p. 2). The rationale behind the Japanese TrC is that, by undertaking TrC, the capacity development offered by this framework is crucial for countries to strengthen their own management of SSC.

TrC promoted by Japan has also been done together with international partnerships – for example, JICA organised between 2009-11 learning and dialogue program, with participants coming from Indonesia, Mexico, Egypt, Kenya and Brazil, and included technical staff from German Labour Organisation and UNDP (Honda, 2014, p. 17). This type of cooperation can be described as a knowledge-sharing partnership, where all three actors involved can learn about the practices of the others.

4. European Union: challenges to ODA policy in South Asia

The idea of EU's cooperation with developing countries is far from being decent. Actually, the idea is almost as old as the process of European regional integration, dating back to the establishment of the European Economic Community in 1957 through the Treaty of Rome. This is a result of the colonial past of some of the founding members of the Community, as the policy was serving the purpose of linking overseas territories and former colonies of the EEC member states. Over the years, the geographical scope of the international cooperation policy has been enlarged: from its creation until the 1980s, its focus has been on the African, Caribbean and Pacific countries (ACP), currently, the EU is dealing with Asian, Latin American, Mediterranean countries, Middle East and Eastern European countries, having a global presence in 140 countries.

As of the latest Annual Report of 2017, the key EU-funded projects and programmes were concentrated on the following areas: good governance, conflict prevention-peace building-security, food security, energy and education (EU, 2017, p. 15). Therefore, further deepening the EU-Asia cooperation on many levels represents a priority for the EU. In this sense, a confirmation of the main idea of the paper is already seen – the EU continued to increase engagement with major donors in the area – going as far as strengthening existing Strategic Partnerships in 2016 with India, Japan and China (EU, 2017, p. 18).

Asia is a territory described as being the world's largest and with the highest population density, being of geostrategic importance to the European Union. According to official EU data, the cooperation with Asia is being done at both country and regional level. The EU Global Strategy supports as well the EU's interests in engaging Asia. Moreover, it goes further in remarking that the recognition of Europe's historical ties with Asia is complementing the link between European prosperity and Asian security (EU Global Strategy, 2017).

In what regards aid disbursements, the majority of the EU funds are allocated to the Least Developed Countries in the region (LDC), among which Bangladesh, Cambodia, Mongolia, Myanmar and Laos. In the South / Southeast Asian region, the EU is promoting trade liberalization and integration via regional organisations – forging ties with South Asian countries and increasing integration with the Association of Southeast Asian Nations (ASEAN). This approach highlights the role EU plays as a strong economic actor in the region, but also hints towards the role it has as a reliable aid donor for development. Moreover, the EU also provides humanitarian assistance to both

refugees (in reference to the 2017 Rohingya refugees¹), as well as to areas affected by natural disasters or conflicts.

4.1. The European Union and Bangladesh: promoting good governance

Good governance is the most significant concept concerning the functioning of the public sector in the European Union, which managed to modify the concept until it became a model worthy of being emulated in the world (Grzeszczak, 2014). For the EU, in compliance with the principles stipulated under the development aid policy, institutions and public administration need to be accountable and provide high quality public services. Starting from this, the EU supports all reforms which target institutions, policies, management, in order to provide public services at high standards, to have access to them in a transparent manner and to strengthen the legitimacy and accountability of the aforementioned institutions.

Therefore, the EU supports regional reform efforts and long-term strategic planning, in order to reduce social inequities and achieve decentralisation. Moreover, the aim of achieving institutional legitimacy has as purpose the fight against corruption – all being lines of action on which the EU invests.

The relations between the EU and Bangladesh can be traced back to 1973². Their bilateral relationship reached its peak in 2001, through the Cooperation Agreement, covering themes such as economic development, trade, good governance, environment and human rights – today, the EU is the biggest trading partner of Bangladesh. Following this, the European Union committed, under the 2014-2020 Multiannual Indicative Programme, around 690 million EUR.

The commitment takes into account EU's support for the Government agenda for reform of Bangladesh, but also stresses on the immediate need for the country to deliver on its promises. However, even if it is a parliamentary democracy with a fragile political situation, security instability and rising religious extremism, Bangladesh reports also human rights abuses and increased political and sectarian violence.

Bangladesh managed to achieve the Millennium Development Goals, with a 7% economic growth and a dynamic private sector, low-cost workforce and improved working conditions and labour rights, yet it maintains the trait of a Least Developed Country (LDC) (World Bank, 2018). Due to this, Bangladesh benefits from the European Banking Authority arrangement, the most favourable

¹ Since August 2017, more than 650,000 Rohingya refugees have fled persecution in Myanmar to Bangladesh.

² Starting with Bangladesh becoming an independent Republic within the Commonwealth.

trading regime available under the EU's Generalised scheme of preferences (GSP) and received under the 2007-2013 EU indicative programme allocation around 403 million EUR for addressing social exclusion and poverty.

As mentioned under the EU indicative programmes and the EU-Bangladesh Strategy Paper, the funding priorities between the two entities are: Human and social development, good governance and human rights, economic and trade development. In addition, assistance is provided for environment and disaster management, as well as food security.

In spite of the commitment and efforts made by Bangladesh in what regards the promotion of good governance in the public sectors, there are still remaining challenges, as described earlier in the paper.

According to the Japanese Country Assistance Program for Bangladesh, at the central level, there is a need of improving the policy implementation capacity – coordination across all governmental agencies is needed. At the sectoral level, there is a need for building capacity of the implementing agencies (institution building) – because of this, there are other problems related to efficiency in public works and public services. At the local level, there is a need for decentralization and directly target the needs of the community, since poverty starts from this point. By looking at the problem in this way, there can be made a connection between good governance and all the other issues which affect the daily lives of people living in Bangladesh.

In response to the challenges, JICA developed several projects in regards to the improvement of the capacity of public administration. As seen in the JICA Report on Bangladesh, mainly through the implementation of technical cooperation, JICA engaged into institutionalizing the concept of Union Development Coordination Committee (UDCC) and Total Quality Management (TQM). These two contribute to ensuring more transparency and accountability of the public service (JICA 2016, p. 25). Besides technical assistance, Japan also disburses financial aid in areas of local governance, where local institutions are using the Japanese projects in order to improve their local government and develop their infrastructure.

In what regards the EU, good governance is also one of the main targeted areas of EU ODA – and one of the best examples would be a project which supported the justice system – “Activating Village Courts” (2007-2015). The objective of the project was to empower the poor and the vulnerable and give them access to a fair justice system coordinated at the local level. In this sense, the EU cooperated with UNDP, which became the main implementing authority and this partnership managed to give access to justice to more than 128,000 people, which solved a judicial complaint in

an average time of 28 days, compared to 5 years, if they would have chosen the national legal system (Testimonials from the project³).

Conclusions

At first glance, efficiency of aid allocation is only about achieving goals. Donor states allocate aid in order for the recipients to achieve either economic or human development, or even both. Inducing governance changes or affecting corruption are also priorities of various assistance funds, but in the end, only very small improvements were seen in the success of aid allocation, as the targets of the Millennium Development Goals were not all achieved. As such, in order to deliver aid, in both an efficient and effective way to those who are most in need, commitment to certain targets is needed.

It has been discussed by many that the effect of aid on poverty is much more important than the effect on economic growth. In the beginning, donors allocated funds in order to support client states in the developing world only by purely economic reasons. But things changed and aid moved slowly towards the alleviation of poverty and promotion of development in the underdeveloped and developing countries. However, money alone is not an efficient way of improving human development, although, on short-terms, it might prove effective. Also, since the number of donors increased, aid started to become less transparent and less predictable, allowing a decrease in its efficiency. As such, the circumstances surrounding efficiency are numerous, and only recently discussions took place in order to improve the way funds are allocated efficiently and effectively.

Nonetheless, the determinant of efficient aid allocation is represented by the good policy of the recipient state and the sum of money allocated by donors. There is solid evidence that aid efficiency has been improved not because of changing the pattern of aid allocation, but because of aid levels and change in policy at recipient-level. It does sound reasonable that a state which has good policies can use efficiently the aid received in order to develop. Yet, the logic behind aid is to give help to those states which have high levels of poverty, but when most of them do not have good policies, how can aid be efficient? On the contrary, aid is a weak instrument of improving governance as well as affecting corruption or raising individual awareness.

Therefore, both donor and recipient state need to align to various commitments and fulfil their roles in order for aid to be both efficient and effective. While the donors need to cooperate and better coordinate with one another in order to create a transparent and predictable environment for aid

³Testimonials can be found at: https://ec.europa.eu/europeaid/case-studies/village-courts-providing-justice-bangladesh_en

allocation, the recipients need to focus on improving their governance and policies, so as to raise the returns on aid and increase investment, thus improving growth, income and achieve social peace.

Taking this analysis further into the SSC discussion, Bangladesh has been part of global cooperation to strengthen South-South partnerships through knowledge-sharing discussions and multilateral dialogues. Bangladesh is a case which managed to “import” and “adapt” development solutions and at the same time “exported” to others in need, keeping its status as an aid recipient country. Bangladesh institutionalised its entire “imported” aid architecture and established their own Economic Relations Division (ERD), organised under 9 wings, each dealing with a specific region/donor. ERD is the main organisation dealing with both SSC and TrC. Moreover, Bangladesh has gathered throughout the year experience in what regards triangular cooperation, most of the projects being implemented with JICA support. For future cooperation, both Japan (via JICA) and the EU (building on expertise with other international agencies or donors) can continue the TrC in the region. By providing cooperation to a third country while receiving assistance from a traditional donor, the countries which implement the assistance can gain valuable knowledge and experience.

The paper ends with one last argument stressing upon the case of Bangladesh. As with various other countries in Southeast Asia, there can be observed wide clashes between “Western” and “Eastern” values. Thus, it is true that standardised codes or institutions do not appeal to existing customary ties and traditions. Therefore, cultural barriers can be taken into account when dealing with promoting societal values; but good governance is a model of harmonious development of a state, and a model can always be improved. There are successful cases, such as Taiwan and South Korea, where good governance, despite cultural barriers, has played a positive role in development. Today, these two countries became models of development, by moving from recipients to aid donors. Moreover, the society itself has not been changed. The answer lies in adaptability of the principles: one cannot apply the same model in every country; each has its own particularities and needs to find its own answer for achieving development.

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The new European Union space policy in order to maintain Europe's position among space leaders

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Abstract

This paper analyzes the current EU space strategy and confronts it with nowadays global challenges in the space sector. The ultimate aim of it is to recommend a well-adjusted space policy for the European Commission for assuring effective and sustainable exploration and use of outer space for the benefit of all EU members. In order to craft the most efficient space policy, the uniqueness of Europe's space sector is studied. This paper argues that the EU space policy has to focus on guaranteeing European autonomy in access and use of outer space. It also aims to extensively analyze the challenges and opportunities related to dynamic development of private space sector's activities. It emphasizes the significance of symbiotic cooperation between public institutions and private companies with regard to mutual benefits. The paper concludes that it is a right time for the European Union to build a bold and prospective space policy.

Keywords: European space policy, space law, European autonomy, ESA and EU, Private space sector

Introduction

In the heart of space activities lays cooperation. It is a critical element for successful use and exploration of Outer Space in two main aspects. On the one hand joining capacities of different actors is necessary because of unprecedented financial requirements conjoined with exceptional risk which characterize space endeavors. And on the other hand, shared vision of exploitation of Outer Space and common goals elaborated on the international forum among all actors engaged in space operations is essential to ensure sustainable development in that domain as well as protection of Earth's and Outer Space's environments. It is especially characteristic for the European continent where states weakened by the World Wars were not capable of undertaken space ventures individually by their own. Therefore, seeking cooperation with one another, they were keen to establish intergovernmental bodies to govern their objectives the most efficiently.

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Nowadays, the European landscape of space activities changes as number of countries involved in space missions increase and we are on the brink of space commercialization as more and more private companies undertake their own space ventures (Genta, 2014, p.1). As the result, the number and scope of possible activities in outer space are still growing along with technological and scientific development. These changes have to find their echo in prospective European space policy for the years to come. To draw the most efficient path to European space future, understanding Europe's past and current space governance is of the essence.

1. The structure of European Space Governance

This willingness to cooperate resulted in creation multiple intergovernmental institutions which nowadays – after many modification – constitute the framework of European space governance. The multiplication of actors at different levels engaged in space activities makes European situation very unique. There are two main conductors of European space policy: European Union (EU) represented by the European Commission (EC) and the European Space Agency (ESA).

The coexistence in the field of outer space activities of ESA and the EC presents a challenge for elaboration of consistent and holistic space policy for the whole European community. The purposes staying behind their establishment and their main features differ. The European Union enjoys great legislative machinery and political influence possessing superior power in this realm to ESA which is more equipped with technical and operational expertise. Nevertheless, in practice, competences and tasks of the respective institutions are often overlapping and far from clear delineation. Being autonomous and independent from each other, none of them can impose its vision and no hierarchy of their positions and roles in relation to conduct European outer space activities exists (von der Dunk, 2003, p.83). Notwithstanding this, recognizing the importance of working together to reach common objectives, EU and ESA reinforces their cooperation in joint programmes as Galileo or Copernicus. The legal basis for this cooperation is provided by the Framework Agreement¹ (2003) and since then, their shared goals for the European future in space led to several other mutual commitments. In 2007 the 'European Space Policy'² adopted by the 'Space Council' of ESA and EU ministers seeks to increase coordination of their programmes and to organize their roles relating to outer space activities. More recently in December 2016 ESA and EC signed a Joint

¹ Framework Agreement between the European Community and the European Space Agency, Brussels, done November 25, 2003, entered into force May 28, 2004; OJ L 261/64 (2004).

² Resolution on the European Space Policy; ESA Director General's Proposal for the European Space Policy, ESA BR-269. (2007).

EU/ESA Statement³ listing a number of common goals and emphasizing their intention to reinforce further cooperation.

Along with these two main platforms on which European space policy is deliberated there are intergovernmental organizations the scope of interest of which is more limited like the European Organization for the Exploitation of Meteorological Satellites (EUMETSAT)⁴ or the European Defence Agency (EDA)⁵.

And one cannot forget about the individual States which naturally play a key role in functioning of the European space sector. It should be remembered, that these are the sovereign European countries which constitute and form both institutions and it is eventually up to them how the future of Europe will look like. There can be seen two aspects of this remark. Firstly, as the Member States lead the functioning of ESA and EU they must ensure that the potential conflicts of interests and competences will be minimalized. Particularly, in view of the fact that among 28 EU Member States and 22 ESA members, 20 belongs to both organizations, a symbiotic cooperation in a leadership of the European space policy has to be seen by the European States as crucial to assure proper development of their space sectors.

Secondly, despite being the Member States of one (or even both) of these organizations, European nations remain independent – as it was argued before – and they are able to perform their own national space policies outside the framework of institutions' activities. In consequence, one cannot lose sight of the fact, that each of them has its own particular needs and priorities depending on their motivations and rationales for public engagement in space. They depend on the financial capabilities or are the consequence of geopolitical, economical or geographical environment. It results in many differences among their space strategies. As science and exploration are valuable for all States, smaller ones are generally less interested in areas of energy and environment, which are the interests of richer ones. Out of many technological domains contributed by space activities and economical motivators, the most common ones are the boost of industrial competitiveness and foster of international cooperation (Sagath *et al.*, 2018, pp. 117-118). But the governance of their space programmes differs from the smaller States where space-related activities are usually assigned to respective ministries, responsibility of which suits best national space goals, to space-faring nations which establish space agencies for conducting their various space operations. The European countries

³ ESA, *Joint Statement on shared vision and goals for the future of Europe in space by the EU and ESA*, 2016.

⁴ EUMETSAT was established by way of the Convention for the Establishment of a European Organization for the Exploitation of Meteorological Satellites (EUMETSAT), Geneva, done 24 May 1983, entered into force 19 June 1986; as amended 14 July 1994, entered into force 27 July 1994; UKTS 1999 No. 32; Cm. 1067; Cmnd. 9483.

⁵ European Defence Agency is an agency of the European Union that promotes and facilitates integration between member states within the EU's Common Security and Defence Policy (CSDP); zob. retrieved from <http://eur-lex.europa.eu/legal-content/EN/AUTO/?uri=CELEX:32004E0551>

also differ from the point of view of strategy and policy formation as typically the bigger ones have them well-established and dedicated, while in the case of the smaller States, they are integrated in a broader innovation strategy, or even some of them do not have their space objectives established in any public document or accessible publication (Sagath, *et al.*, 2015, pp. 360-365).

Understanding this diversity of European States interests and needs in engagement in space-related activities is crucial for building successful and satisfactory common European space strategy for all Member States of ESA and EU.

2. The role of the EU in shaping European space policy

Established in 1993 by Maastricht Treaty⁶, European Union composed today of 28 Member States⁷ holds the strategic position on international scene representing European political and economic interests. In the realm of space strategy, the European Union (EU) is represented by the European Commission (EC). The European Commission recognizing the increasing value of space sector for the European policy and economy, supervise the comprehensive development of joint space-related activities and uniformity of Member States' space programmes.

The current source of EU competence regarding space activities can be found in the Treaty of Lisbon⁸ which came in force in 2009. By restricting the extent of EU's capability to establish the European space programme, the 'space competence' is the expression of 'shared competences' concept. It means that

'the Union and the Member States may legislate and adopt legally binding acts in that area. The Member States shall exercise their competence to the extent that the Union has not exercised its competence. The Member States shall exercise their competence again to the extent that the Union has decided to cease exercising its competence'. (Treaty on the Functioning of the European Union, 2007, Art. 2(2))

As according to the art 4(3) 'the exercise of that competence [by the Union] shall not result in Member States being prevented from exercising theirs' (Treaty on the Functioning of the European Union, 2007, Art. 4(3)), therefore, some argues that more accurate definition of this relation would be a

⁶ the Treaty on European Union, Maastricht, done 7 February 1992, entered into force 1 November 1993 31 ILM 247 (1992); OJ C 191/1 (1992).

⁷ European Union, *Countries*, 2017, retrieved from https://europa.eu/european-union/about-eu/countries_en

⁸ Treaty of Lisbon amending the Treaty on European Union and the Treaty establishing the European Community, Lisbon, done December 13, 2007, entered into force December 1, 2009; OJ C 306/1 (2007).

'parallel competence' as it leaves Member States authority to implement their own domestic legislation in the realm (von der Dunk, 2015, p. 257). And indeed, one can see consequences of such EU's competences limitation in practice by the example that while seven out of 28 EU Member States have national space legislations regarding a licensing regime of private space activities, the possibility for the Union to adopt a comprehensive EU law in this particular context is seriously limited (von der Dunk, 2017, p.82).

EC space strategy features comprehensive spectrum of space applications. It includes space research which is supported by EU funds under the Horizon 2020 framework programme for research and innovation. EC recognizes also that space activities constitute a powerful diplomatic tool and therefore can create a platform for international cooperation in many areas like development of space infrastructure, defense and security aspects. Such value of space sector is observed as well by the European Parliament which has often called for a greater EC intervention in the international aspects of space⁹. To achieve the best possible, result the Commission closely cooperate with the EP and the Council to discuss and support its strategy as well as to guarantee its effective implementation.

3. The features of European space market

In order to craft the most efficient European space policy, the uniqueness of Europe's landscape of space-related operations should be emphasized. Europe is one of the leading actors in the field of outer space activities. Its space industry maintaining a world class technological level is strong and competitive. Europe's space programmes focuses on fostering new service, enhances European leadership and creates business opportunities employing over 230.000 people (European Commission, 2016, pp.1-2).

The turnover of the European space industry in 2016 amounted to 8.247 billion euro. When looking at the development of European space sectors, there was a 9.4% overall increase in turnover in 2016, with the most growth coming from satellite applications increasing by 12.5%, launcher developments and production increasing by 11.1%. It should be also noticed that European space sector relays heavily on its regional market as 76.4% of final sales on the space market came from European customers. The European space companies are major players on the international level. A communications satellite service provider Intosat has an annually revenue exceeded 2 billion euro in

⁹ in December 2013, it called 'on the Commission and the Member States to work towards global governance for space' (resolution P7_TA-PROV(2013)0534, 10 December 2013).

2016, similarly as another communications satellite owner and operator providing video and data connectivity worldwide SES.

Arianespace, a company established by some of the ESA members which is responsible for manufacturing and operating European launch systems had reported revenue at 1.4 billion euro and Eutelsat which provide satellite coverage over the entire European continent and is the world's third largest satellite operator has the annual revenue around 1.5 billion euro (Al-Ekabi, 2017, pp.46-49).

However, at the same time Europe lacks a continuous public demand on significant level in space services which usually constitutes a basis in space-faring nations allowing stabilization and fostering competitiveness (ASD-Eurospace, 2016, pp.3-6). European institutional space investments are about three times lower than in the USA and four times lower than in Russia. Similar weakness is visible in R&D sector, budget on which represents 10% of sales turnover in Europe, meanwhile in USA it is 25%. European space domestic market is significantly smaller than these of other space powers.

Moreover, while turnover in commercial satellites appears to be increasing, the turnover generated by operational launchers and parts decreased in 2016 relative to the other segments. There could be also noted structural weaknesses in European space sector as military and security are much more limited than in other space-faring nations.

4. The new European space strategy

Taking into consideration above-mentioned circumstances, to be able to develop space industry the most efficiently, enhance European capabilities in space operations and guarantee Europe to maintain its position among worlds space leaders, the European space policy should stress issues discussed below.

Europe's space strategy has to underline the importance of maintaining European political autonomy which is a precondition for strategic independence, understood as "the capacity to take strategic decisions and to execute them so as safeguard a number of vital interests" (Wouters, *et al.*, 2015, p.52). It is essential for strengthening Europe's sovereignty and wealth as well as protection of European States interests. Besides, advanced independent development affects reliability of Europe as an important and strategic partner for other space-faring nations.

To enable autonomy in various fields of space applications, first and foremost, an independent access to space has to be assured. For that purpose, Arianespace, a multinational company with its headquarters in France was established in 1980. It was formed on the basis of successful development of operational launchers by ESA and currently is supported by almost half of ESA Member States

(Arianespace, 2017). However today, Europe's well-established position as a leader in launch services is endangered. As new private American actors (as SpaceX or Blue Origin) and national ones as China or India emerge, the launch market become more and more sophisticated and competitive. With new technology used in next generation of rockets allowing for reduce of the costs of launch, it is much harder to win clients over (Salt, 2017, pp.31-32).

And indeed, insufficient deployment of new technology in Arianespace future launcher can seriously threaten viability of the company and subsequently whole European independent access to space (Sauzay, 2017, pp.79-82). As the concept of reusability is being on the course to revolutionize space launches as it allows save up to 30% of the launch cost thanks to recovery of parts of a rocket (as in the case of SpaceX, which brings back on the Earth the whole first stage – engines and tanks – which represents around 70% of a rocket costs) and increase frequency of launches (Quora, 2017), Ariane 6 will be fully expendable which could affect its competitiveness. To prevent it from happen, two reusable engines are currently developed in Europe – Prometheus which would be used in Ariane 6 and even more advanced Adeline (Guillermard, 2017, p.27).

In that place, it is crucial to underline the significance of enhancing promotion of and support for commercial space launch services which will boost innovation development and in consequence will reduce costs. Instead of the US launch market, there still are not many private companies willing to undertake launch operations in Europe what is on the one hand a result of much smaller market and consequently fewer potential clients but on the other hand also because of lack of proper policy towards such investments. EU should firstly concentrate on making contracts with private companies for developing required technology or delivering specific services. It should happen with financial contribution from both sides and under necessary level of supervision of public institutions in order to ensure anticipated results. Moreover, when possible, the governments should purchase already existing private services instead of building their own systems for public space missions.

Along with ensured autonomous access to space, Europe can benefit from independent space applications. In three the most important sectors of space application a deliberated and prospective strategy are already carried out and should further developed in years to come (Densing, *et al.*, 2015, pp.127-129). The first of such is Earth observation which provides capability to meet the challenges as disaster management or monitoring environmental pollution. It also helps in strengthen safety and security in increasing menace from terrorism and modern types of warfare, as well as monitoring natural changes and migrations. To not to be obliged to rely on other nations systems in such strategic matters EU and ESA combines their efforts to establish the programme of Global Monitoring for Environment and Security (GMES, currently Copernicus) which aims at achieving autonomous, high quality Earth observation capacity. Another sector of space application is satellite navigation. It is

dominated by US and Russian systems, but lately also China, Japan and India invest in their own regional satellite navigation services. In Europe, Galileo programme meets the need for independent system under civil control perfectly. The constellation of 30 satellites is planned to be completed by 2020 (European Commission, 2016, p.8). It will provide precise positioning signals and will help Europe manage road, earth and sea traffic, as well as it will enable for Europe to cooperate on a new level, for example connecting Galileo and USA's GPS system. In the field of satellite communication (Densing *et al.*, 2015, pp.131-132), the oldest and best-known area of space application, indispensable for modern world, with great commercial market, Europe cannot stay behind. Being aware of the strategic values that it poses, ESA is developing European Data Relay Satellite (ESRS) system which will provide fast and reliable telecommunications network ensuring European nations independence in transforming their own data.

To properly protect its space assets Europe has to be able to monitor space weather and gather real-time, precise information about human made or natural near-Earth space objects orbiting in outer space. Current European Space Situational Awareness (SSA) programme is undertaken by ESA as an optional with financial participation of 19 Member States (ESA, 2017, website). With international cooperation, Europe has to develop and operate system which will ensure space objects security and will allow Europe to be a partner, instead of a customer for other space-faring nations (Kaiser, 2015, p.6). This issue is also vital in the context of still increasing amount of space debris. The American Surveillance Network which is the main organ worldwide responsible for tracking and cataloging space debris reports that there are around 23.000 elements in outer space. This number of fragments of space objects constitute the 7.500 tons of artificial matter orbiting around the Earth (ESA, website). European nations through their actions within the framework of EU should be foreground actors on the international arena in ensuring robust and comprehensive regulations concerning space debris mitigation. Another closely related to the issue of SSA is space traffic management. In the lack of a competent intergovernmental specialized organization or agency, on the cusp of space commercialization and enhanced use of outer space, the 'rules of the road' applicable to outer space operations are necessary and European States should take its unified stand also in that case.

It should be emphasized here, that Europe does not need independence in every space-related field. In science and technology, or deep space explorations and manned spaceflights the cooperation and interdependence is the most desirable way by which they should be undertaken (Simpson *et al.*, 2016, pp. 23-25). But even then, it is crucial to guarantee European scientists state-of-the-art tools and systems to enable them to be a par with the rest of international colleagues.

As was noted above, a weak public demand of Europe's nations leads European market to a unique situation. The European space industry – unlike other space powers – highly relies on the

commercial business. As many as 64% of the European space industrial output is devoted to commercial markets, leaving only 36% to local institutional activities. In USA, contrary, this number are 60 to 40% for advantage of institutional market (ASD-Eurospace, 2016, pp.3-6). This close connection with private sector emphasizes the significance of cooperation between public and private actors within the framework of European space strategy.

5. New policy towards private space sector

The privatization and commercialization of outer space is on its way and we are on the brink of economic boom in space-related activities. Private companies do not anymore limit themselves to traditional sectors as remote sensing or direct broadcasting. Their ideas are revolutionary and rich entrepreneurs which stay behind them are willing to invest lots of money in bold endeavors like space tourism, space hotels or asteroid mining. A potential of outer space for commercial market is huge and even though it is still uncertain and risky, the number of new ventures increase.

The advantages of this trend are plural. The fundamental difference which benefits private companies over public agencies is a one of policy nature. While public agencies are directly dependent on state's administration with its changing powers, influences and lobbies, the national policies can change every few years after each election and with it a strategy as well as budget on space programmes. In such environment, keeping permanent priorities can be very difficult. Whilst, private investors, based on market situation and commercial demand develop their strategy independently being in a better position to maintain long term engagements and stable goals (Genta, 2014, p. 2).

However, decision to invest in space business is not easy as the exceptional risk accompanying space endeavors goes hand in hand with necessity of unprecedentedly high investments. Eventually, when somebody decide to take up a task, there are multiple challenges ahead concerning remarkably sophisticated science and technology, designing, building and operating state-of-the-art space machines. But potential risk and uncertainty does not end there. Success in achieving envisaged goals, or even in accessing market or raising investment capital profoundly relies on political and regulatory decisions. Very often, it is not a technological or financial complication what is stopping entrepreneurs from undertaking a determined venture but a lack of certainty and assurance that such investment will be duly, legally protected (Christiensen, 2016, pp. 38-39).

The current and future model of handling space-related activities by European States directly translate to opportunities for private investors. The way they perceive private entities and the role they assign them as well as the mechanisms they establish to work together and to award contracts

define development of European private space sector. Public programmes constitute a major part of consumption of space services and even in a such unique environment as mentioned before European space market represents with high reliance on non-public activities, it rests decisive for governments to on the one hand enable the flourish of private ventures by preparing reliable, stable political and legal basis guarantying protection for private investments and on the other hand to become a principal customer of all kinds of private space services. To ensure the latter, close work and transparent communication is essential. By understanding the needs and goals of its partners, both sectors can benefit from a symbiotic relationship.

What happens on the scene of space activities already do not go unnoticed by European actors. For example, ESA with its 'Space 4.0' strategy (ESA, 2016) acknowledges the evolution of space sector. It emphasizes the importance of interaction between governments, private sector, society and politics to maintain competitiveness of its programmes. 'Space 4.0' includes also full integration of European economy and industry (analogously baptized as 'Industry 4.0'). Moreover, ESA expresses its interest in a close collaboration with private sector in the context of space exploration plans. By the 'call for ideas' initiative (ESA, 2015) it offers opportunity for private companies to become a strategic partner with the realization of European exploration ideas for mutual benefits.

Similarly, on the national level one can also find strategies adjusted to the changed space scenery. For example, CNES (French national space agency) introduce new methods in respect of expanding global competition and commercialization of outer space activities (Le Gall, 2017, pp. 45-46). It still focuses on innovation and development of space systems but its approach has changed from the 'top down' concept to the 'bottom-up' policy in which potential users are firstly asked about their needs and as a consequence of their answers, the development of adequate systems starts.

With no underemphasizing abovementioned adjustments, there is still a need for a further, robust, unified and preferably European-level actions in order to fully take advantage of emerging private space sector.

Therefore, to enable a rise of private initiatives European governments have to review their space regime and establish, amend or just clarify regulations applicable to space-related activities. While being aware of a possible threat which possess insufficient regulation, public law-makers have to also keep in mind that light-touch approach is crucial to enable expansion of private ventures. Regulatory policies have to be implemented progressively with the realization that too early action carries certain risks and some level of flexibility is necessary in order to achieve the rollout of private investments.

Procedures of licensing, payload reviews, wide variety of controls and inspections carried out prior to launch will have to be reexamined and modernized to be able to manage increased number

of operations. Application and decision-making processes should be transparent, consistent and equal across those willing to undertake space operations. On the same time, European legislator should keep off vague and ambiguous provisions trying to regulate a broad spectrum of activities in one fell swoop and instead establish particular regimes for specific cases when required.

An active law-making role is vital not only from the point of view of benefits which it brings to internal market but it is also highly relevant for the European States from the perspective of their international position. Even though the equal access, use and exploration of outer space are the principal guaranteed by the space law regime (Tronchetti, 2013, p. 8), space powers have a greater impact on a development of space law due to their practices as well as interpretations of international treaties and subsequent establishment of corresponding domestic space law (Pace, 2016, pp. 3-4). They shape their regulations around their space policies and industries in the way to be the most efficient for their own interest instead of elaborating them through multilateral negotiations. This regulatory shift from the international to national level in law-making could result in the development of future space law in favor of some States which are more active in standards setting (Danilenko, 2016, p. 181). From the European perspective it is key to take a clear and unified position in this matter in order to regulate the issues for commercial worldwide space market and to assure an adequate protection of space and on-ground environment. At this point, it is also vital to emphasize that it is essential for emerging European space nations to be active in legislation domain also in their own countries (Dennerley, 2016, p. 4). As mentioned above, it matters not only because of the fact that a stable and reliable national law is the basis for a development of private companies in any given country, but also from the point of view of their international position and interest in space activities. If emerging space nations want to play a significant role on the international level and benefit from the principle of equality in space endeavors, they have to adopt similar strategies and legal regimes to these of space-faring nations.

6. Space security and defense

Another vital issue which has to be addressed in the European space strategy is the military space sector. Outer Space constitutes an indispensable sphere in the modern world's challenges and threats.

The concept of use of the universe for defense and security purposes by space powers is well reflected by *the Space Report 2017* which estimates that military space spending in 2016 were around \$33.000 billion (The Space Foundation, 2017, p. 15). Meanwhile, Euroconsult estimates that around 35% of the \$62.2 billion in global space budgets in 2016 went to military spending, i.e. about \$22.86

billion (The Space Foundation, 2017, p. 15). Also according to the abovementioned Space Report 2017, the United States generated a 66.7% share (\$22.000 billion) of global military space spending in 2016 and non-US global military spending was responsible for remaining 33.3% (\$11.000 billion).

At the same time, equally important as to take advantage of space assets to improve on-ground security is to assure security in space. Crucial space infrastructure has to be appropriately protected as more and more space powers demonstrate their capacity in anti-satellite systems. But the fact that issues connected to security are very sensitive and individual States are cautious in sharing their defence intelligence have resulted in the fact that until recently security capabilities of Europe has been little more than the sum of its national stakes. The significance of dealing this this issue in a sense of symbiotic cooperation among all European players was emphasized by EU which stated that: [s]pace infrastructure is critical infrastructure on which services that are essential to the smooth running of our societies and economies and to our citizens' security depend. It must be protected and that protection is a major issue for the EU which goes far beyond the individual interests of the satellite owners (European Commission, 2011, p. 6).

The total funding for European military space programmes was about \$753.051 million in 2015. France had the highest military budget at \$362.696 million, while the United Kingdom budgeted \$317.860 million, with Germany at \$55.765 million and Italy at \$16.730 million (Al-Ekabi *et al.*, 2018, p. 85).

The most recently, on 30 November 2016, the European Commission released its European Defence Action Plan. It proposed most importantly the creation of European Defense Fund, actions European Defense Fund, actions to support more efficient spending by Member States in joint defense capabilities, strengthen European citizens' security and foster a competitive and innovative industrial base (European Commission, 2016). Moreover, the plan envisages fostering investments in defence supply chains and reinforcing the single market for defence as well as promoting civil and military synergies within EU policies (EESC *et al.*, 2016). European Commission President Jean-Claude Juncker stresses that the purpose of that initiative is to assure the protection of European citizens highlighting that

to guarantee our collective security, we must invest in the common development of technologies and equipment of strategic importance (...). It requires more cooperation between Member States and greater pooling of national resources. If Europe does not take care of its own security, nobody else will do it for us. A strong, competitive and innovative defence industrial base is what will give us strategic autonomy. (European Commission, 2016)

And indeed, within the space security sector, there is a relevant economic case for greater cooperation between all European countries (Remuss, 2010, p. 12-13). The statistics from recent years reveal the weakness of European investments in security and defence areas. For example, the United States invested more than twice as much as the total spending of EU Member States on defence. Defence budgets in Europe have been shrinking in recent years while China has increased its defence budget by 150% over the past decade. What is more, the lack of cooperation between European States in the field of defence and security costs between €25 billion and €100 billion annually, due to inefficiencies, lack of competition and lack of economies of scale for industry and production (Council of the EU, 2014, p. 85). Around 80% of defence procurement is run on a purely national basis, resulting in duplication of military capabilities. More European activities in defence sector will have a positive spillover effect on the European economy as the European defence industry generates a total turnover of €100 billion per year and 1.4 million highly skilled people are directly or indirectly employed in Europe (European Commission, 2016, pp. 1-3).

All of these shows that symbiotic cooperation between all European actors is of the essence to fully exploit the potential of using outer space for the security and defense purposes. And the fact that – concerning nowadays challenges and threats – the final frontier plays indispensable role in modern world – as it was argued in in several fragments above – demands from the European policy-makers right actions.

Conclusion

Due to cooperation between European actors Europe has become one of the most important players on the scene of space activities. But its situation is unique. The strategy in that realm is developed by different bodies as well as it is influenced by particular policies of individual European States. Without doubt, to be able to effectively confront key challenges symbiotic collaboration with a sense of responsibility is of the essence.

The EU policy-makers also have to recognize the significance of remaining autonomous in access to and operations in outer space. Wise and forward-looking decisions can provide Europe with cheap launch services, large space market and new investors guaranteeing competitiveness of European space industry while remaining a strategic partner for other space-faring nations. Along with that European actors have to recognize the potential of outer space in the context of on-ground security as well as adequately protect their space infrastructure.

It is a right time for building a bold, prospective European space policy. Even though private space market is not free from unpredictability and challenges and even further new and complex

problems would occur in the future, it is worth to seize this opportunity to not to drop off from this New Space Race.

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Nemo potest venire contra factum proprium. The coherence principle in European contract law

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Abstract

The coherence principle was elaborated by the legal scholar Dimitri Houtcieff in the field of contract law of the French legal system as an instrument for overcoming those contradictions regarding the contract or the contractual behavior which may be damaging for the other party or even for third parties. The coherence principle relies on the hypothesis that a contract, as the agreement of the parties, is a coherent system, and that whatever contradictions it may contain are irreducible oppositions within the system, deriving either from certain explicit provisions in the contract or from the behavior of the party, which can affect the dynamics of the contract in various ways. The article intends to elaborate on the notion of contractual contradiction as it was developed in the French doctrine, to analyze such contradictions in the French contract law and to verify, on the one hand, if there can be established any relation of equivalence between the legal notions employed in the French legal doctrine and the Romanian one, and, on the other hand, if the coherence principle may prove to be applicable in the Romanian contract law as an equally useful tool.

Keywords: principle of coherence, contradiction, contract law, interpretation

Introduction

Following a thorough analysis of a multitude of legal practices which start from the formation of contracts and their performance to the febrile litigation point where the decisions of the courts articulate judiciary practices, Dimitri Houtcieff, professor at Faculty of Law and Political Sciences of Aix-Marseille, managed to identify an overarching principle which has the effect of restoring the contract or the specific inconsistent, heterogeneous conduct of a party to its coherence, when applied to any prejudicial contradiction to either the other party or third parties (Houtcieff, 2001). The notion of contradiction which he elaborates consists in an irreducible opposition within a system and at this level of abstraction it can only have an invariable and objective nature, due to its logical and formal characters, regardless of whether it affects the contract itself or the conduct of the contracting parties. However, if the contradiction may be identified as an invariable formal deviation, the resulting

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incoherence may have various degrees, and as such, may also have different effects on the contractual dynamics.

The points Houtcieff analyses refer to somewhat disparate contractual aspects, such as the interpretation of contracts, the situation of conditional obligations, especially those under a *condition potestative*, the contractual provisions regarding the reduction, limitation or ease of the liability of the debtor, the formation of contracts through both negotiations and offer-acceptance mechanism, or the contractual remedies for breach of contract a party understands to make use of. For all these aspects where occurrences of contradictions within the contract or related to the contractual conduct of the parties can be identified, he proposes the application of the coherence principle as a means to overcome the damaging effects of incongruities and redress the contract (Pătulea *et al.*, 2008, p. 118).

Since the coherence principle elaborated by Houtcieff is a result of precise transversal interpretations of nuanced aspects of contract law, which finds its particular application within the French legal system, the question of whether such a principle could be acculturated somewhere else, if it would prove useful or even plausible within a different legal system bears a significant relevance. However, the Romanian legal system heavily relies on French civil institutions, since the former Romanian civil code of 1865 was inspired by the 1804 Napoleon Code and the transformations that the French civil code underwent were also considered in the elaboration of the current Romanian civil code in force since 2011. As such, the success of a legal transplant in the Romanian legal system of the French coherence principle can be anticipated, since it relies on the general resemblance of the legal contractual architecture in both legal systems. Nevertheless, the scope of the principle, as it was outlined on the basis of the French civil code and French judiciary practice, may be subjected to specific variations on specific marginal aspects of the contractual dynamics in Romanian civil law, which the article also intends to analyze.

1. Occurrences of the principle of coherence

It is relevant for the purpose of this article to briefly follow the dynamic of the principle of coherence, on both diachronic and synchronic levels, thus sketching the evolution of the principle as it was constituted under different sets of norms, different denominations and as an answer to specific issues. As such, the overview proceeds from the Latin apothegm itself, which encapsulates the essence of the principle of coherence and offers its most supple and concrete phrasing, *Nemo potest venire contra factum proprium*. From the Roman understanding, the norms and practices of the Middle Ages come into discussion with regard to the principle, with an accent on the autonomous body of norms known under the rather broad reference of *Lex Mercatoria*, norms which were

designed to govern particularly international commercial contracts, but gained a specific echo in the process of codification in European legal systems. From this point on, the analysis focuses on the gradual development of the principle of coherence in contemporary international commercial contracts, with an emphasis of the current set of norms of *Lex Mercatoria*. In order to capture a comprehensive perspective on the principle of coherence, the overview concludes with the sanctions provided in common law under the doctrines of promissory and equitable estoppel, legal solutions equivalent to those provided under the principle of coherence.

1.1. The coherence principle in international commercial contracts

The latin phrase *Nemo potest venire contra factum proprium* is part of the standard repertory of private European law, and it was firstly used in Roman law to refer to the prohibition of a party to act in such a way that contradicts a previous act of his own on which the other party relied, thus causing a detriment to the latter (Zimmermann, 2003, pp. 57-57). The phrase would later reflect in the coherence principle, which was not explicitly articulated as such, but only implied by the duty of good faith in trading practices under *Lex Mercatoria*, the Law Merchant emerging from the customs of traders and merchants of the Middle Ages (Gordley, 2000, p. 108). The medieval *Lex Mercatoria* constituted itself as an independent body of rules that was not an emanation of a specific political authority and that compiled a roughly coherent set of principles and rules based on the particular needs, interests and risks of medieval inter-city and cross-border trade (Wolaver, 1934). The medieval *Lex Mercatoria* disappeared during the 19th century, when the emergence of the nation state and the issues of state-sovereignty it entailed became dominant to the detriment of the idea of an independent transnational trading law. However, since it was tailor-made after the specific needs of merchants and thus bearing a significant relevance for economic agents, the principles and rules of *Lex Mercatoria* were incorporated in the most important legal systems of both major legal families: in the continental-European legal systems, in the commercial law codifications such as the French Code de Commerce or the German Handelsgesetzbuch, and in the common law as well, even though, as Blackstone noted, *Lex Mercatoria* differed from the general rules of the common law (Blackstone, 1809, p. 75).

Nevertheless, the new *Lex Mercatoria* managed to reorganize principles and rules of transnational trading law which are currently being used in international arbitrations by counselors and arbitrators, as well as contract drafters and academics at the international level (Berger, 2018). The TransLex-Principles is such a strain of the ongoing contemporary *Lex Mercatoria*, which started in 1992 and managed to compile a non-exhaustive and open list of more than 130 principles and rules of transnational trading law, such as *pacta sunt servanda*, duty to mitigate damages, duty to pay

interest, or compensation for expropriation (Commentary to Trans-Lex Principle). Among these general principles of international trading contract law, which can be traced back from the Roman law even to the contemporary legal systems of both continental European and common law legal families, there is also a reference to the Roman *Nemo potest venire contra factum proprium*, however, under a different denomination, which articulates the principle of coherence: Chapter I: General provisions, Section 1: Good faith and fair dealing I.1.2 - Prohibition of inconsistent behavior: (a) A party cannot set itself in contradiction to its previous conduct vis-à-vis another party if that latter party has acted in reasonable reliance on such conduct. (b) Violation of this Principle may result in the loss, suspension, or modification of rights otherwise available to the party violating this Principle or in the creation of rights otherwise not available to the aggrieved party.

The placing of the principle of coherence in the section regarding good faith in the TransLex-Principles is not a singular occurrence. Good faith is a well established principle in international commercial law, as it is explicitly stated in art. 7 (1) of the 1980 Vienna Convention for example, and it is usually correlated with the principle of fair dealing in trade. The fair conduct is to be evaluated abstractly, objectively, considering the behavior of a reasonable trader in a similar situation. The Uniform Commercial Code of United States of America, as well, regulates both the good faith and the fair dealing principle in art. 1-304, which states that every contract or duty within the Uniform Commercial Code imposes an obligation of good faith in its performance and enforcement, and in art. 2-103, which states that good faith in the case of merchants means honesty in fact and the observance of reasonable commercial standards of fair dealing in the trade. Also UNIDROIT Principles of International Commercial Contracts focus on the good faith, which it relates to the fair dealing in art. 1.7 of the first chapter, referring to the general provisions regarding international trading contract law. This imperative principle demands from each party to act according to good faith and fairness in trading and that the parties cannot exclude nor limit this obligation, thus the mandatory nature of the provision. The notion of good faith and fair dealing in international trade is to be applied considering especially the conditions of international trade and not according to regular standards adopted by different national legal systems, which can be considered only if it is proven that those standards are generally shared by different legal systems (Sitaru, 2008, pp. 517-518).

A remarkable aspect is that within or alongside the principle of good faith and fair dealing in international trade, the coherence principle was also introduced, even though the latter was not directly deduced from the first. The deduction was mediated by the notion of abuse of rights, which also derives from good faith as it is stated in the 2016 version of the UNIDROIT Principles, and which consists in a specific conduct of a party who exerts his contractual right in order to damage the other party, for any other purposes other than the ones for which the right was given or when the

exercise of the right is disproportionate to the result initially considered by the parties. The introduction of the coherence principle in the UNIDROIT Principles occurred only in the 2004 version, in art. 1.8, which sanctions the inconsistent behavior, stating that a party cannot act inconsistently with an understanding it has caused the other party to have and upon which the other party has reasonably acted in reliance to its detriment. As it is stated in the first comment on the provision 1.8, the coherence principle derives from the principle of good faith and fair dealing and imposes a responsibility on a party not to produce a detriment to another party by acting inconsistently with an understanding regarding their contractual relationship which it has caused the other party to have and upon which the latter has reasonably acted in reliance. The second comment states that there is a variety of ways one party may cause the other to have an understanding concerning their contract, regarding either its performance, or its enforcement. The understanding may result, for example, from a representation made by the party, from his conduct or silence, when the other party would reasonably expect an intervention in order to correct either a known error or a misunderstanding that was being relied upon. The comment also states that the understanding may refer to any area of the contract and it is not limited to any particular subject-matter as long as it relates in some way to the contractual relationship of the parties. It may relate to a matter of fact or of law, to a matter of intention, or to the way in which one or other party can or must act. The only limitation regarding the understanding is that it must be one on which the other party can and does reasonably rely on in those circumstances. The reasonable character of the reliance is a matter of fact related to those circumstances considering, in particular, the communications and the conduct of the parties, but also the nature and setting of the parties' dealings and the expectations they could reasonably have from each other.

1.2. The coherence principle in common law – promissory and equitable estoppel

Even if the common law does not recognize the principle of coherence as such, it employs specific institutions in order to sanction the fact that *Nemo potest venire contra factum proprium* through the estoppel doctrine through its both forms, promissory estoppel and equitable estoppel.

The promissory estoppel doctrine was firstly introduced through the 1947 Central London Property Trust Ltd v. High Trees House Ltd. The defendant concluded in 1937 a contract with the plaintiff for renting a block of flats for 2500 pounds. During the Second World War, 1939-1945, the apartments could not have been sublet, since a great part of the population of that area left. In 1940, due to this state of war, the plaintiffs agreed to a reduced rent of 1250 pounds, without specifying the period of time in which they would accept the diminished rent. At the end of the war, in 1945, the

apartments where sublet, but the defendant continued to pay the diminished rent. The plaintiff demanded that the defendant would pay the amount of rent agreed upon before the start of the war, from the moment the apartments could have been sublet, and the Court agreed, since the conditions that justified the diminished rent ceased to exist. However, Lord Denning stated that, although the plaintiffs won, if they would have requested the full rent also for the period during the war, their request would have been denied on the basis of promissory estoppel. This doctrine does not allow a plaintiff to insist in the realization of his legal rights, even if there was no consideration given in exchange to the promise, if the following conditions are fulfilled: the plaintiff assumed a promise not to insist in his legal rights and this promise was made with the intention to produce legal effects, the plaintiff knew that the defendant was relying on the promise and acted according to that promise (MacIntyre, 2007, pp. 121-123).

The equitable estoppel doctrine intends to protect the defendant who is held liable for the illegal situation resulting from the trust the defendant had relying on the affirmations or acts of the other party (Hyland, 2009, p. 462). In the judiciary practices there were established the conditions which allow the use of the equitable estoppel: the existence of representation over a state of affairs which both parties knew, but later proved to be false, the reliance of the defendant on that false representation, and the change in attitude of the plaintiff regarding that state of affairs. The legal doctrine refers to the 1862 case of *Dillwyn v. Llewelyn* as an application of the equitable estoppel. In this case, the father gives some land to one of his sons by making a deed in which he mentions that the gift was made so that his son can build a house, and the son, with the agreement of his father, builds a house. At the death of the father, the other son contests the transfer of land, showing that the deed was not legally valid since it did not meet all the required conditions. The Court rejected the claim and Lord Chancellor Westbury affirmed that, even though the equitable estoppel cannot save acts which are illegal under common law, if the father gave the land to his son to build a house and he did so with the agreement of his father, the son has a right to call on the donor to perform that contract and complete the imperfect donation which was made with the disregard of the law (Codrea, 2016, pp. 239-240).

2. Houtcieff's contractual contradictions in French and Romanian legal systems

Advancing the notion of contractual contradiction as a formal irreducible opposition within a contract, understood as a coherent system, in his 2001 *Le principe de coherence en matière contractuelle*, Dimitri Houtcieff notes that such contradictions may have a various depths (Houtcieff, 2001). Starting from the formal identification of the contradiction, deriving either from certain

provisions included by the parties in the contract or from acts, facts and conducts external to the contract but closely related to it, the judge has two possibilities: either resolve the contradiction by interpreting the contract as it firstly appeared, as a heterogeneous set of opposing provisions, in a coherent manner, or, if a coherent thread through the conflicting contractual dispositions cannot be identified, eliminate the conflicting provisions from the contract, which would then be completed with the common dispositions. The first possibility can be efficiently implemented through the rules of interpretation of the contract, similar in both French and Romanian legal systems, which rely on the primacy of the internal, real volition of the parties and on the systematic interpretation of the contractual provisions. A specific set of dispositions with this regard are provided in art. 1202 of the Romanian civil code. These dispositions refer to the particular situation of the contract concluded without negotiations and consisting in standard provisions which are unilaterally established by one of the parties (Oglindă, 2017, pp. 73-74). If the contract contains both standard clauses and negotiated ones, if there is a contradiction between the first and the latter, the negotiated ones prevail over the others, as it is stated in art. 1202 (3). Art. 1202 (4) states that if both parties use standard clauses without agreeing on them, the contract is considered concluded on the basis of negotiated clauses and of those standard clauses which have a common substance. Any divergent standard clause is excluded from the contract, and its disposition is replaced with the general rule provided in the civil code.

However, Houtcief is primarily concerned with the latter possibility, related to those contractual clauses and also extra-contractual conducts of the parties which would corrode the very core of the contract by breaching *pacta sunt servanda*, the binding force of contracts. Such contradictions imply that a party, although seems to submit to the obligatory force of the legal act, manages to elude its binding effect through provisions stipulated in the contract or through certain acts, facts or conducts related to the contract but external to it. The analysis should, then, follow the distinction deriving from the proximity of the contradiction to the contract: contradictions arising from contractual provisions, and those deriving from extra-contractual acts, facts or conducts.

2.1. Contradictions arising from contractual provisions

The contradictions which arise from provisions in the contract and endanger the binding force of the contract itself usually translate an incoherence located at the level of the legal volition of a party. Such dissimulating provisions are those that encapsulate conditional obligations, like the ones assumed by the debtor under a potestative condition, which art. 1174 of Code Napoleon prohibited: The obligation is null when it was contracted under a potestative condition on the part of the debtor (*Toute obligation est nulle lorsqu'elle a été contractée sous une condition potestative de la part de*

celui qui s'oblige). Without referring explicitly to the potestative condition under which the obligation was assumed, the French civil code in force abandons the previous phrasing and broadens the scope of the prohibition to any clause that deprives the debtor of its essential obligation, stating in art. 1170 that such a clause is deemed unwritten (*Toute clause qui prive de sa substance l'obligation essentielle du débiteur est réputée non écrite*). The 1865 Romanian civil code included in art. 1010 a similar provision to the one in Code Napoleon, and so does the Romanian civil code in force in art. 1403. The reason for this prohibition, common to both legal systems, is that such obligations contradict the very idea of a commitment, which can only lead to the logical conclusion of the inexistence of the legal volition to conclude the contract. The irreducible opposition is to the very core of the contract, to its binding nature, since through those clauses the debtor reserves an arbitrary power to intervene in order to make the event presupposed by the condition to occur or to stop, depending on the nature of the condition – the event either triggers the very existence of the obligation or its dissolution. The coherence principle in these cases consists in the nullity of the clauses, a sanction which saves *pacta sunt servanda* by constraining the debtor to execute his obligation (Pătulea *et al.*, 2008, pp. 118-119).

A different application of the coherence principle can be found in the cases of contradictions deriving from those contractual provisions which limit either the obligations or the liability of the debtor. Through these provisions the debtor assumes a certain obligation while simultaneously preserving the right to arbitrarily evaluate the circumstances which would allow the performance of the obligation. The contradiction in these cases is between the binding principle of contracts and the unrestricted power of the debtor to prevent the performance of the obligation he assumed. The application of the coherence principle would annihilate the contradiction and save the contract through the discharge of the incoherent clause. A related example is that of the clauses through which, on the one hand, the debtor assumes an obligation that he admits can only be performed by him, while, on the other hand, reduces, limits or excludes his liability. In these cases, the fact that the debtor explicitly admits the performance is entirely depending on him, means that he also admits there is no external risk in the performance of the obligation, contradicting thus the clause which limits or excludes his liability. Through the use of the coherence principle the contradiction would be annihilated and the logical dynamic of the contract would be restored.

Art. 1170 of the French civil code in force, which refers to clauses that deprives the debtor of its essential obligation, contains the very essence of the coherence principle, connecting it to the essential contractual elements. The provision assumes that there is a critical point in a contract beyond which a contradiction through a reduction of the obligation or a limitation of liability attacks the very idea of the contract by emptying the content of the obligation itself. The Romanian civil code in force explicitly refers to the essential elements of the contract in art. 1182 (2), related to the formation of

contracts through negotiations, but the essential elements referred to in the provision have a different meaning than the one implied in art. 1170 of the French civil code. Art. 1182 (2) states that it is sufficient that the parties agree on the essential elements of the contract, even if they leave some secondary elements either to be agreed upon at an ulterior time or to be determined by a third party. This provision introduces the theory of sufficient agreement for the conclusion of contracts through negotiations and the essential elements of the contract are those referring to the legal volition of the parties in the absence of which there can be no contract whatsoever (Vasilescu, 2017, pp. 320-321). The essential obligation referred to in art. 1170 of the French civil code and the essential elements referred to in art. 1182 (2) of the Romanian civil code are two distinct notions, which only apparently overlap on the semantic sphere of that which is essential, as something which is fundamentally required, a *sine qua non* quality. However, if the French provision is concerned with the preservation of the principle of *pacta sunt servanda* in an already concluded contract and relate to obligations alone which require that they are assumed with a minimal content, the Romanian provisions relate to the minimal contractual aspects required for a contract to be concluded through negotiations, such as the object of the contract, the object of the obligations or any other aspects on which the parties insist for the conclusion of the contract.

2.2. Contradictions arising from extra-contractual acts, facts and conducts

Houtcieff does not limit the scope of the application of the principle of coherence only to the contractual content and its explicit provisions alone, but is also concerned with specific acts of the parties, external to the contract, but intimately related to it. Such extra-contractual acts occur during formation of contracts through negotiations or through the offer-acceptance mechanism and breach the principle of coherence as long as they contradict the concluded contract.

In the negotiation phase, the partners may use different pre-contractual documents with various binding forces. Houtcieff refers especially to advertising documents employed by the debtor through which he describes the performance of his contractual obligation. The French legal practice considers that such a pre-contractual instrument, although it is not explicitly included in the final negotiated contract and although in itself it lacks any binding effect whatsoever, has to be recognized mandatory force if it contradicts the obligations explicitly assumed in the contract. The coherence principle used in these situations considers the advertising document and the negotiated contract as a coherent whole, composed of two distinct instruments which separately lack any coherence. The contradiction between those two instruments, fixed through the coherence principle since *prestatio non valet contra factum*, allows for the contracting party to demand an adequate compensation from the debtor. The

parties, however, can prevent the interference of a judge in the establishment of the content of the negotiated contract by inserting in the final contract a merger clause, through which any pre-contractual instrument used by the parties during negotiations is excluded from the content of the final contract. Even in this case, if the parties did not explicitly state, the merger clause does not exclude the interpretative value of the pre-contractual instruments, which the judge can refer to whenever the interpretation of the real, internal will of the parties is required (Pop *et al.*, 2015, p. 90).

A similar situation related to the negotiation phase, where also pre-contractual instruments are used which later contradict the final contract, is the one in which the debtor, during negotiations, adopts a particularly persuasive act, which is known under an identical denomination in both French and Romanian legal system: *engagement d'honneur* (Malaurie *et al.*, 2009, pp. 231-323). These commitments are not sanctioned by the law and have no autonomous legal force, since they imply that the one who assumes it connects the efficiency of his promise to his own personal attributes, such as loyalty or honor, which may very well be translated into an obligation assumed under a condition whose fulfillment depends entirely on the debtor. However, if such a commitment was made in order to persuade the other party to conclude the contract, the first cannot oppose to the latter the non-binding nature of the commitment. The contradiction in this case relies on the fact that the pre-contractual instrument and the final contract were presented by one party and considered by the other as correlated entities, and the one who assumed the commitment, opposing to the other the non-binding effect, would fracture the correlation on which the other party relied. The coherence principle applied with respect to this particular contradiction allows the judge, whenever he appreciates it to be just, to prohibit the debtor of the commitment to use the non-binding effect in the detriment of the other party.

Contradictions may as well arise in the formation of contracts through the offer-acceptance mechanism. Both French and Romanian legal systems admit that if the offer to contract stipulates a term for acceptance, it is irrevocable. However, such an offer may be retracted if the withdrawal of the offer reaches the addressee at the latest simultaneously with the offer. If it reaches the addressee after he received the offer, the issuer of the offer is liable. The same is the situation of an offer made without an explicit term for acceptance, which is considered to be irrevocable a reasonable amount of time, depending on the circumstances necessary for receiving, analyzing and deciding on the offer, or when the addressee can prove that the offer without an explicit term of acceptance nevertheless implied a term deriving from the habits and practices of the parties (Veress, 2018, pp. 32-33). This possibility for the addressee to prove the existence of a reasonable or implied term in an offer issued without an explicit term for acceptance is provided in art. 1193 of the Romanian civil code, and relies on the principle of coherence. Whenever the term is explicitly stipulated in the offer or such a term

can be derived from circumstances, the addressee is recognized the right to ignore the revocation of the offer when the withdrawal of the offer reached him after the offer itself, and the right to send his acceptance to the bidder, concluding the contract. The contradictory conduct of the bidder who either includes in the offer a term for acceptance or knows that the acceptance of the offer requires a reasonable or implicit amount of time and then, within that amount of time, withdraws his offer, is sanctioned through the possibility of the addressee to either ignore the withdrawal and conclude the contract or to give it effects and demand damages.

An interesting application of the coherence principle occurs in the context of voidable ownership, which presupposes that the owner gains the property right through a voidable act. The property right of the owner is insecure either until the consummation of the prescription term of the action for the annulment of the act, or if the one who is entitled to demand the annulment of the act confirms it. However, such a confirmation may only occur considering the rights of third parties, as stated in art. 1265 (1) of the Romanian civil code. This phrase refers to the situation in which a party transfers the property right through a voidable act and later concludes a different act with a different party transferring the same property right (Adam, 2017, pp. 428-429). The party of the second act concludes it only in reliance to the fact that the transferor will legally demand the annulment of the first act, and this is the point where the contradiction occurs: instead of demanding the annulment of the voidable act on which the second party relied on, the transferor confirms the first act, securing the property right transferred through the first act. In this situation, art. 1265 (1) is an application of the coherence principle insofar as it considers ineffective the confirmation of the first act as a contradictory conduct with regard to the second party, who relied on him acting in a certain way.

A distinct application of the coherence principle can be located in the field of representation. In order to produce direct effects between the third party and the principal, the agent has to let the third party know both his quality of an agent and his powers to act on behalf of the principal. Whenever the agent does not comply with these obligations or acts beyond the quality and given powers, he is personally bound by the contract concluded with the third party. However, if the principal, through his conduct, determines the third party to reasonably believe that the agent has the power to act in the name and on behalf of the principal, the contract concluded by the agent with the third party will bound the principal, even though he was not a party of the contract. The coherence principle sanctions the contradiction between the conduct of the principal and the representation he led the third party to believe as valid, by binding the principal to an act to which he would not have been normally tied to.

Also the simulation implies a contradiction which is sanctioned through the principle of coherence, since the parties conclude two distinct contracts, an apparent, public one, and a real, secret one, which corresponds to the real intention of the parties and which contradicts partially or entirely

the legal appearance created through the public act. In every form of the simulation, the fictive act, the disguising act or the interposition of parties, the contradiction is between that which is publicly stated and that which is privately assumed. If one of the parties of the simulation refuses to perform the secret contract by opposing to the other party the public act, the coherence principle sanctions such a behavior by allowing the party to introduce an action against simulation, through which he can prove the inexistence of the public contract, the existence of the secret one and demand the performance of the latter. Also as a consequence of the coherence principle, the secret act cannot be held against the third parties who acted in good faith, those who did not know of the existence of the simulation, since there is a contradiction between using a simulation in order to hide a specific operation from third parties and demanding that the secret contract produce effects towards those same third parties from which the act was kept secret.

2.3. The principle of coherence applied to one's own conduct

Houtcieff argues that there can be deduced an obligation for a party to be coherent to himself in those situations where a party relies on a certain quality to gain a benefit and then to rely on the opposing quality to gain another advantage, or to elude the consequences of his first conduct (Pătulea *et al.*, 2008, pp. 121-122).

These situations may roughly be assimilated to the Roman principle *Nemo auditur propriam turpitudinem allegans*, in those contracts annulled for immoral or illicit cause, where the restitution would place one party in the position of gaining from his own culpable conduct. The same is the situation where the parties stipulated a provision in the contract that would entail a conventional rescission, provision which the debtor would hold against the creditor who demands the enforcement of the contract. The admission of the demands of the debtor would offer a means to escape the enforceability of the contract in the detriment of the creditor, through the use of *pacta sunt servanda* and the efficiency of the rescission provision in the contract and, as such, it would contradict the fundamental idea that all the remedies for non-performance of the contract are and should be at the disposition of the creditor.

The coherence principle applied to a party's own conduct also implies that a party cannot simultaneously rely on excluding remedies, demanding both the rescission and the enforcement of the contract. Also, in the situations in which the non-performance of one party is caused by the other, the latter cannot use *exceptio non adimpleti contractus*, because otherwise it would imply that the creditor is relying on his own culpable conduct, *mora creditoris*, in order to not execute his own obligations.

Conclusions

The principle of coherence in contract is a general principle recognized in the field of international commercial contracts, regulated as such in specific international documents, and also implicitly affirmed in the legal systems of both legal families, continental-European and common law. If the understanding of the coherence principle in international commercial contracts implies a broader definition, relating the principle to the idea of abuse of rights or to the good faith principle, especially in the French legal system the notion elaborated by Dimitri Houtcieff relies on an formal equivalence of an opposition against logic, which requires only an objective evaluation with regard to the contract, understood as a logically coherent system. From this abstract point of view, the contradiction can occur in relation to either internal contractual provisions or external acts, facts and conducts of the parties, but its evaluation does not require an analysis of the complex problematic of the subjective position and psychological attitudes of the parties. As such, the coherence principle saves especially the core of the contract, whenever the contradiction attacks the very essence of *pacta sunt servanda*. However, the coherence principle tends to restore the contract to its clarity whenever a contradiction occurs, even though it is not affecting the core of the contract. In this respect, the analysis of several contradictions and the solutions given after the application of the coherence principle in the French legal systems proved that the principle of coherence can be employed as well in the Romanian legal system. The legal doctrine already mentions such an implicit obligation of coherence in the contractual conduct of the party, along with the obligation of cooperation, information and good faith, and such an implicit obligation is deducted from the dispositions of art. 1272 (2) of the Romanian civil code, which states that the usual contractual clauses are implied even though they are not explicitly mentioned in the contract.

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The vicious circles of development through dependence. an interpretation of the Romanian nineteenth century economy

Dan VELICU*

Abstract

In the last decades, the academic debate on the origins of the economic gap between nations divided deeply historians, sociologists and economists as well. Dependencia theorists pointed exogenous causes for Latin American backwardness while the revisionists emphasized endogenous causes. Finished the Cold War and faced with new evidence, previous conclusions are far from being complete and final. There are different issues, which were superficially investigated, or they were sometimes entirely neglected. With the intention of transcending the two opposing currents of thought the present paper aims to synthesize all the accessible and collected data up today in Romania in order to analyze the impact of the markets' integration in the nineteenth century. On one hand, the Romanian nineteenth century economy is a fertile field for study, because it transferred neither slowly nor quickly from a "world economy" to another, which permitted a short relatively autonomous development. On other hand, even Romania was object to various studies in developmental economics, the foreign researchers did not access important evidence, which can change the conclusions on the main topic. The paper will present the economic and social parameters outlined in early 1800 and how these will evolve at the pressure of the Western markets. It will also point that the markets' integration generated two major trends as long-term tendencies: the increase of land price and the increase of the rate of interest. Both were impediment to a faster development of the Romanian society and in connection with other elements like the dysfunctionality of the state they will form a vicious circle of slow development.

Keywords: markets' integration, periphery, Romania, land price, interest rate

Introduction

Understanding the way to achieve prosperity was a topic which founded practically the economics as object of debates if not the science itself. While the gap between nations is widening, the research on its causes is today no less fascinating than it was in the past. Some forty years ago, Immanuel Wallerstein, an American sociologist succeeding the works of Raul Prebisch and the Latin American dependency theory offered a unitary representation of the economic history in the modern age: the world system which grounded mainly on the relations between core countries and peripheral spaces. His well-known concept was in fact a development of the notion used earlier by Fernand

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Braudel that of “*économie-monde*” (translated in English as world-economy). In late 1970s, the French historian developed his concept trying to point the tendencies of the “*économie-monde*” (Braudel, III, 1979, p.12). Even he did not sustain Wallerstein’s key ideas he admitted that during the early European modern history, foreign trade was increasing and the markets’ boundaries were slowly changing (Braudel, III, 1979, pp. 16-17).

The next decades let place to the revisionism of the “dependency theories” and “the world system theory” as well. This new trend assumed obviously and unfortunately a political end, because the revisionists were absolving the Western states for being the cause of poverty in the peripheries and for the enormous backwardness as well.

Only in the 1990s, in a brilliant work, Paul Bairoch demonstrated that the Western economic development and the industrial revolution didn’t ground on the raw materials imported at low price from the periphery (Bairoch, 1995, pp. 88-96), while the estimation of the GNP per capita pointed that a certain economic development occurred also in the peripheral areas and the rate of growth is probably higher than the levels estimated for the earlier centuries.

Today, the concepts as “world-economy” or “expansion of the European economy” lost probably some audience being substituted by new ones, more popular as “markets’ integration” or “globalization”. For their meaning may be different from one author to another, we feel the need to specify that by economic integration or markets’ integration, we shall understand the increasing – even slowly but sure and irreversibly on long term – of the foreign trade, which caused the adjustment of the internal market’ prices and also relevant social change.

1. The Necessity of Returning to the Data

If we study both opposed views on the effects of the economic integration or markets’ integration, we shall observe that the adepts of the “dependency theory” and the “world system theory” as well did not research the major trends generated by the integration being more interested in social change.

For example, Georges Balandier stated in the 1950s the characteristics of “the colonial situation” without providing any economic data or minimum evidence in order to understand what really happened in all these peripheral economies. Neither Frank nor Wallerstein or Chirot were interested in providing data which could prove the “development of the peripheralization” (Frank, 1974, pp. 5-10; Wallerstein, 1974, pp. 16-349; Chirot, 1976, pp. 89-112).

On the other hand, the radical revisionists did not analyze if there was a decay of the secondary sector or if the markets’ integration produced somehow effects that can upset or deformed the

peripheral economy (Haber, 1997, pp. 146-152). Some of them limited their research to pointing development impediments the lack of foreign investments, a stable national currency, a bad oriented education system, a small internal market and a lack of manpower (Lampe, 1989, pp. 200-201).

Other neutral works even they were focused on the long-term evolution did not pay attention to some key elements that could suggest in the peripheral space of world economy there was a radical change (Bulmer-Thomas, 1994, pp. 95-100).

Finally, and I should add unexpectedly, a recent monumental work whose author – famous for his research on European peripheries – had as a substantial aim to point the causes of the Eastern European states backwardness and offered in my opinion no clear answer in that sense (Berend, 2013, pp. 284-376).

On the whole, as a conclusion many scholars – especially during the Cold War – focused only on data that proved their beliefs or ideas, without referring to evidence that might relativize their conclusions or simply ignored important data for their research.

1.2. Research impediments

Finding the origins of economic gap seems to be easy, but on scientific ground it became a heavy task. The integration of Polish space in the European economy in early modern period was proved decades ago (Malowist, 1958, pp. 26-27), but it is difficult to assess the major effects of this integration, and especially to provide data just because it was a long-term phenomenon in a relatively remote past.

On the American soil, the integration superposed with the settlement of the Europeans that makes problematic evaluating hypothetical major effects in an economy outlined since the sixteenth century as an export oriented one.

In that context, the case of the Romanian principalities (or simply Romania, since 1866 until 1918) – having the same surface as England – was and could be a fertile space for research because the real integration took place slowly in early nineteenth century, and probably reached its climax since the 1860s while the railway construction started.

On one hand, we have access to significant data regarding population, economic and social structures because the principalities were modernizing their administrative system, and on the other hand, it seems that the integration didn't influenced immediately the economic development.

In all this context, I must add that some facts we shall investigate in this paper were noticed by previous researches on peripheral societies in nineteenth century without providing any data or essential conclusions. The increasing rates of interest in Venezuela's post independent era (Halperín

Donghi, 1985, p. 317) and the increase of land values and rate interest as well in Brazil (Bethell, 1985, pp. 123-719,) made me think that probably there was a socio-economic phenomenon connected to the growth of foreign trade and to the social structures. Later, the analysis on loan strategies in Greece (Dertilis, 1988, pp. 227-230) validated my conclusions on the data collected from Romanian statistics, primary sources and secondary literature.

2. Preliminary Notes

2.1. The Romanian Society in the Nineteenth Century

Taking into the account that the social and political history of Romania is not well known today by the Western scholars, we shall try to make briefly some considerations limited on the two principalities, by excluding the Habsburg Transylvania (mainly inhabited by Romanians) or the Moldavian Eastern province known under the name of Bessarabia (mainly Moldavian Republic today) which was occupied and annexed by Russia in 1812.

Therefore, in early nineteenth century, Wallachia and Moldavia were two principalities, which maintained de jure their autonomy in relation with the Ottoman Empire by making substantial payments to the last and being integrated in Braudelian Ottoman “*économie-monde*”.

Prima facie, the social hierarchy was similar to the Western ones. The political power was exerted by the prince (which was directly appointed by the sultan by the late seventeenth century) with the formal or informal consensus of the nobles.

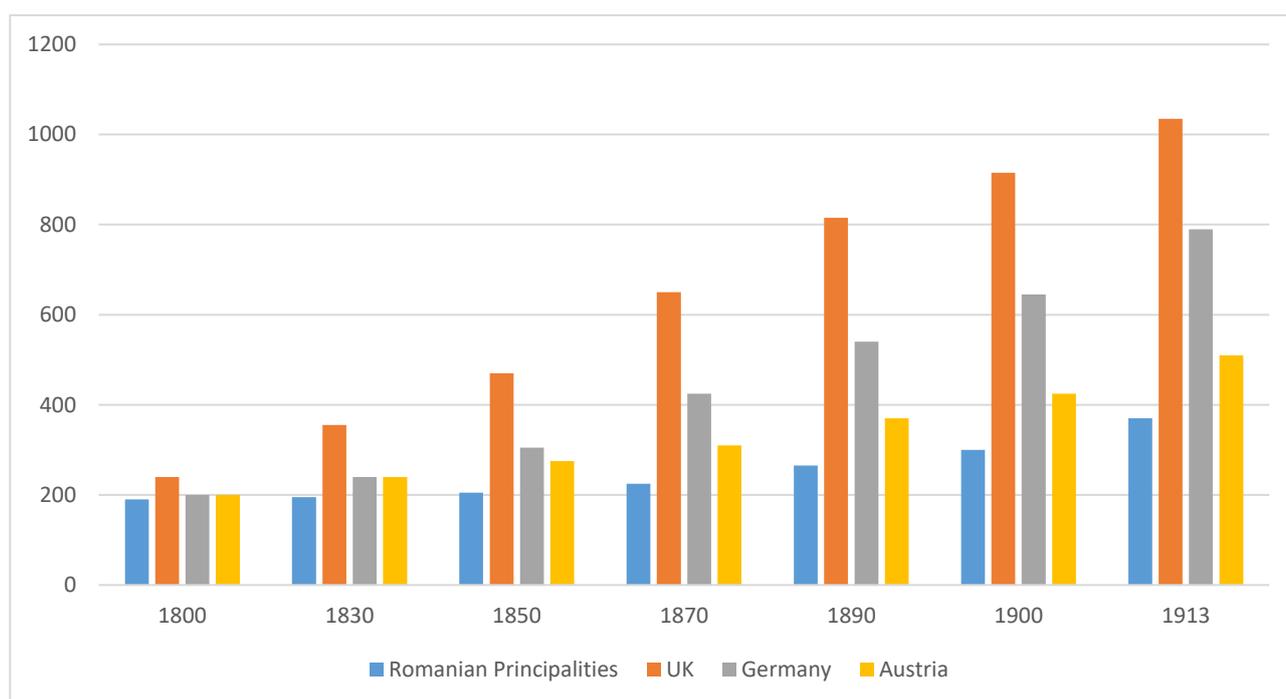
At the top of the social hierarchy some great aristocratic families formed the elite while some thousands constituted the lesser nobility (lesser as percentage than in Western societies). The fragile middle class was composed by the urban dwellers (sometimes organized by guilds) while obviously, at the bottom of the hierarchy there were the peasants which of course were the majority of the population.

Nevertheless, the society was a backward one. By comparison with the Western states – and we are referring especially to United Kingdom, Netherlands or France – the population density was historically lower (Malanima, 2009, p.15), about 30 inhabitants per sq.km in 1859 (Rothenbacher, 2016, p. 33), the cities were smaller (perhaps with the exception of Bucharest) and, as a consequence, the urban population probably reached 10% at beginning of the century (Hitchins, 1996, p. 58). These were not major signs of a backwardness, but many urban dwellers had in fact agricultural works as main occupation, while in the rural area only a few were caught in the “putting out system”, and

on the whole, all that means that the division of labour was less extensive than in the Western states mentioned above.

Nevertheless, the last data published by Paul Bairoch suggests that the economic gap was not as high as one may expect. Therefore, Bairoch's estimations and trends rises normally the question: Why the Romanian society did not improve the economic development as other backwarded neighbors?

Figure 1. GNP per capita (US dollars 1960)



Source: Bairoch, 1997, pp. 252-253

Assuming the risk to be too extended in preliminary considerations, some remarks are necessary to understand better the social situation.

First of all, the peasants were freed in Principalities from 1746-1749 (Lampe and Jackson, 1982, p. 85), so all debates about the “second serfdom” would exclude the principalities. Not being serves they can move from an estate to another and take the land by leasing contract.

Even if according to the laws, the nobles were entitled to tithes – *dijma* – and also to request labor days – *clacă* – on the estate's reserve (Lampe and Jackson, 1982, p. 84), they preferred to receive money as compensation for the labor days. Many times, the peasant paid an annual sole rent in money as compensation for all legal obligations.

In fact, at least in Wallachia, the reserve was unimportant – it accounted for under 5 per cent of cultivated land even in 1838 (Lampe and Jackson, 1982, p. 84) – while in Moldavia was increasing from the beginning of the century.

Many times, at least in the first decades of the century, the peasants acted as modern tenants paying only the cash rent for the land leased.

Being part of the Ottoman “*economie-monde*”, the exports were generally directed to Constantinople and the Balkan Peninsula. That does not mean the principalities had not commercial relations with Central European countries. On the contrary, by early nineteenth century cattle and horses were exported from Moldavia to Central Europe and corn and wool to Transylvania (Lampe and Jackson, 1982, p. 84).

In comparison with the Atlantic economy, the Ottoman “*economie-monde*” did not generate a high degree internal division of labor; the principalities exported manufacturing produces in the Ottoman Empire.

Beyond the official commercial monopoly on wheat – which was never as comprehensive as it seemed on paper (Hitchins, 1996, p. 109) – the high costs of carriage, the long route to Western markets – which compulsory traverses the Bosphorus strait – made little or no interest in grains exportation.

As the state service became the only criterion to enter and remain in the aristocratic class (Hitchins, 1996, p. 109), the nobles – who were exempted from taxes – preferred to move to the urban areas where the income generated by these services was easier and probably higher (d'Hauterive, [1787], 1902, p. 182; Constantinescu, 1985, p. 18.); this secular trend explains why the peasants became the main economical actors in the early 1800s. The latter were predominantly raising animals and their sale was the major source of income which allowed them to fulfil the numerous financial obligations in relation with the state and the landlord (Hitchins, 1996, p. 73).

After grain trade liberalization (1829), because the Western markets were demanding grains in huge quantities the peasants lost that economic role and remained producers, but through an intermediary relation (the great leaseholders, the merchants or the landed oligarchs) as Braudel described in early modern Poland (III, 1979, p. 384).

Finally, on the whole, during the nineteenth century the society didn't significantly change. If in early 1830s, some two thousand nobles formed the dominant class, one hundred years later, on the eve of 1907 Romanian Peasants' Revolt a little more than one thousand people owned 38 percent of the arable land while more than 1 million family peasants owned 41 percent (Rosetti, 1907, p. 493).

In the meantime, even the hygienic conditions slowly improved and the lifespan increased to 36,4 years up to 1900 (Ghețău, 1978, p. 142) the pasture reduced from 3,668,000 ha in 1862 to

1,969,000 ha in 1906 (Axenciuc, 1996, p. 47). As a consequence, the number of cattle per capita diminished (Axenciuc, 1996, p. 425) and the peasant diet strongly suffered: milk consumption reduced with 50% while pork with 35% (Scraba, 1907, p. 21).

2.2. The Opening of the Ottoman Straits

While the Ottoman “*economie-monde*” probably was stagnating and the political structures were undermined by different conflicts for power, since late eighteenth century the foreign merchants in principalities – *sudiți* – placed on the Romanian market low price manufactures which satisfied growing demand of the local nobles for luxury (Hitchins, 1996, p. 106).

The Russian Turkish War of 1806-1812 seemed to bring new ideas and information about the whole European context, but also the demand of grains for the Russian army which outlined the potential new incomes by exporting the grains.

Therefore, the start of the markets’ integration could be placed in the last decades of the eighteenth century or the first decades of the next century. However, all these international commercial changes even higher in value than the time before were frequently interrupted by war, revolution, riots or Turkish raids on the Lower Danube.

As a conclusion, the Adrianople Treaty, which in 1829 ended a succeeding war between the two powers, can be accepted as the conventional moment in starting the markets’ integration. By obtaining more autonomy, the freedom to export or to import and especially the access to all European harbors a new era emerged for the Romanian economy.

3. The Major Trends Generated by the Markets’ Integration

Being abolished all the legal economic limitations imposed by the Ottoman “*economie-monde*” it is a truism to say that the future was promising, even for the moment, the major part of the grains was bought by the Russian army – retreated only in 1834 – and, of course, by the merchants of Constantinople who payed prices at the international level.

The tariffs were extremely low: only 3 percent *ad valorem* for imported or exported goods and 5 percent *ad valorem* since 1850 to 1867 (Cioriceanu, 1928, p.138). Not yet fully independent the principalities must adapt their tariffs according to the Ottoman ones and, obviously great powers like United Kingdom, France or Austria had no interest in accepting their right to modify this level in the virtue of their autonomy internationally recognized.

Slowly but irreversibly, the grains were transported far away on the Western markets while industrial products were brought in change in the Danubian harbors from Central Europe, from Paris or even London. Expecting always good harvest and higher incomes the nobles' demand for luxury goods was expanding strongly since 1830s.

As the roads were in a poor condition and good harvest alternated with bad harvest the foreign trade grew slowly until the 1850s and the 1860s when, on one hand, the Crimean War was a good opportunity for the grains exporters and on the other hand, the railway network developed in the neighboring Habsburg Transylvania.

Generally, it is accepted that foreign trade supposed two stages (Chirot, 1976, pp. 121-125):

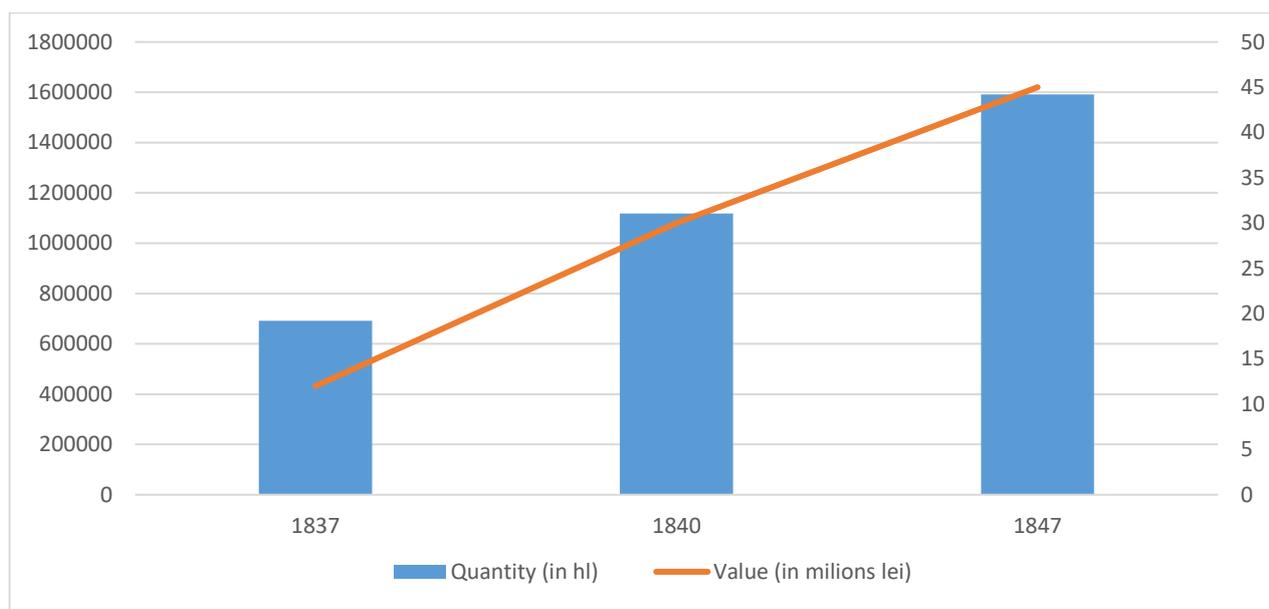
1. Between 1829 and early 1860s when the exports were on the road of specialization and the imports consisted mainly in luxury goods;

2. Since late 1860s when by the development of the national railway the imports consisted mainly in grains (and oil since 1900) while exports increased extremely and consisted also in mass consumption goods.

Figure 2. Foreign trade of the Romanian principalities (1818-1900, in millions gold lei)



Source: Lampe and Jackson, 1982, p. 103

Figure 3 - Moldavia Grains Exports

Source: Bușe, 1973, p. 302

3.1. Land Prices Revolution

If we retain 1829 and the opening of the Ottoman Straits as the start of the markets' integration, it seems that the major and first consequence of this complex and irreversible phenomenon was the rise of the land price.

One may say that a sort of economic integration could be outline in the very first years of the nineteenth century, but on solid scientific grounds it is difficult to prove directly this trend because of the lack or ambiguity of the sources even the interest to exploit the land (i.e., by restricting the access of the peasants) became clear. After 1829, the situation was more predictable than before and it became also obvious that the rise of the primary-product prices – in our case, the grains – will be a long-term certain effect in the context of the years 1830-1840. The prices were significantly increasing, at least on short term; an enthusiastic vision of the future generated directly a great expectation also on the incomes and in an agrarian economy as a consequence a land value increasing trend.

At this time, in Romanian historiography knowledge is far from being complete. Destruction or disappearance of private or public archive in the two world wars or in other moments and especially, the lack of a tax system for the aristocratic land until the 1850 marked negatively our efforts to fix and make conclusions on the long-term statistical data that could prove the evolution of land prices for the first half of the nineteenth century. More, in all this period few people were selling their estates and most of the sales were in fact sales by auction as a consequence of owners' insolvency.

Nevertheless, the land prices trend can be reconstituted taking as a departure point the lease contracts. In the 1830s, as today, it is generally accepted that the average annual rent was the equivalent of the 10% of the land price even, of course, there were many cases when the rent represented only 6% or between 15 and 20% (Constantinescu, 1985, p. 82). By 1850, the land value was considered by a contemporaneous statistician the equivalent of 15 annual rents (Slăvescu, 1941, p. 474).

On the other hand, the first unified statistics well maintained in Wallachia indicate that between 1831 and 1833 the rents doubled or sometimes tripled (Constantinescu, 1985, p. 82). This trend, we must emphasize, has to be interpreted in the political context. Finished the war and with greater autonomy the economy recovered step by step and the rents registered in 1831 were probably minimal. Bad harvest in South Russia made very interesting the exportation of the Romanian grains (Kardases, 2001, pp. 122-129). Therefore, the Wallachian production wheat was growing (Corfus, 1969, pp. 339-357) while the wheat prices were slowly recovering on the Western markets (Abel, 1974, p. 389).

From the data extracted by scholars in early 1900 we have elected by random the evolution of rents and the next figure clearly shows that the rent was increasing since 1840 until 1870. We have to add – and the explanation is also valid for Moldavia – that probably the decrease of the rents around 1865 was caused by the debates on the agrarian reform and the reform itself enacted in 1864. On the whole, the data proves that even the estates less important probably tripled their value if we calculated it using the rental price.

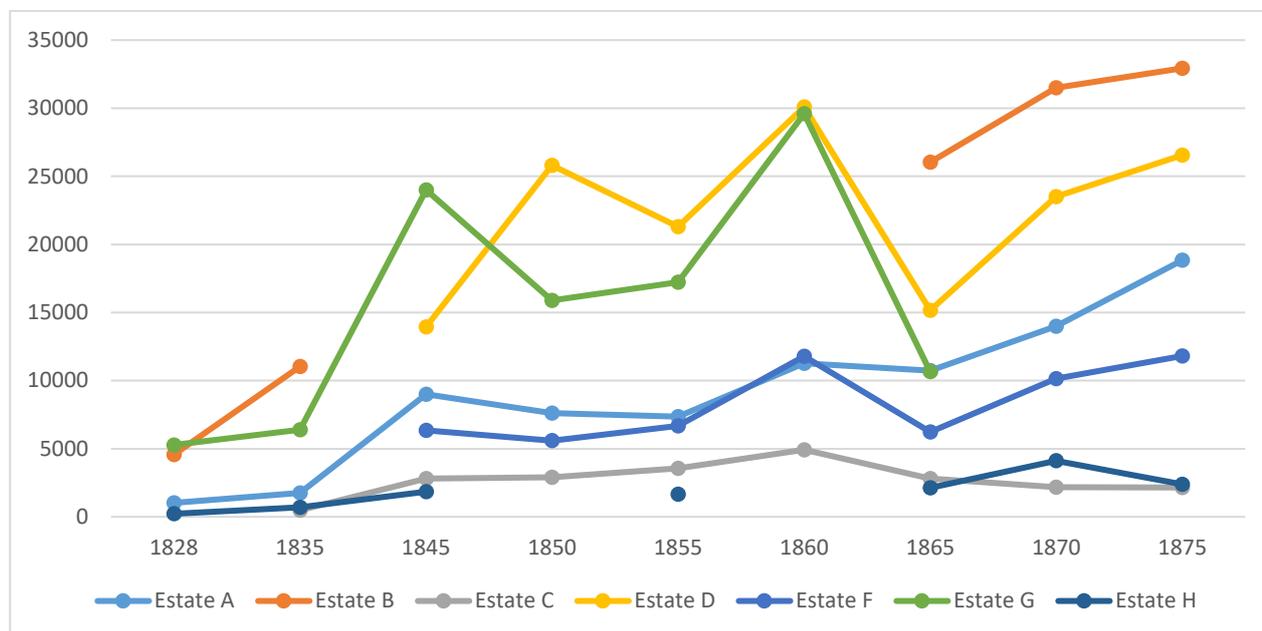
Figure 4. The Evolution of Land Rents in Wallachia (in gold lei)



Source: Rosetti, 1907, pp. 676-677

In Moldavia, the collected registers point a similar increasing trend of the rents (Fig.5).

Figure 5 - The Evolution of Land Rents in Moldavia (in gold lei)



Source: Rosetti, 1907, pp. 672-675

These data clearly suggest that taking also into account the increasing exportation trend and the great expectations of the landed oligarchy the land prices were increasing in the first half of the nineteenth century much more than the population of the principalities and much more probably than in the Western states (Desert and Specklin, 2003, p. 127).

In 1848, an agrarian reform was requested by the revolutionaries in Wallachia and Moldavia as well. The hypothetical abolishing of the last constraints of the peasants but especially making them owners of the field they worked focused the attention on the price of the land and allowed us knowing more about the evolution of the land prices.

On short, according to recent estimates (Axenciuc, 2000, p. 28), in 1864, the year of the agrarian reform¹, the average price of one hectare was 117 lei while in 1867 the average price seems to be 206 lei (Slăvescu, 1941, p. 411).

During the grains prices crisis, we can use the registers of the *Societatea de credit funciar rural*, the main land credit bank of the oligarchy. According to this source, the price of the arable land raised on average from 210 lei per hectare in 1873-1877, to 212 in 1878-1882, 268 in 1883-1887, 314 in 1888-1892, and finally 360 in 1893-1897 (Jormescu and Popa-Burcă, 1907, pp. 110-111).

¹ The agrarian reform of 1864 recognized the peasant individual ownership of the land which was cultivated for domestic consumption and all other work duties were abolished by paying a compensation. Commonly, the compensation amount was perceived by the nobles as the price of the land and not the equivalent of the work duties.

This substantial rise of the land prices could be retained as a normal process. After all, there was an increase of population – even in my opinion non-significant –, the grains were more and more demanded on the Western markets, their prices tended to increase so there's nothing unusual to find that all these prices revolution is grounded on the grains prices evolution.

However, it is well known that from the 1870 when immense quantities of American grains flooded the major European markets the land prices were declining in long term at least in United Kingdom and France even it is not clear to me if it was a mere collapse or just a soft descending trend (O'Rourke, 1997, p. 787).

The logic question I shall rise would be: What will happen during this grains price crisis in Romania? Did the land prices react to this negative long trend?

The data I have just presented prove that during the crisis the price trend is contrary to the Western one; not only that prices will not stagnate from the 1870s, but on the contrary, the price will continue to rise.

Did the crisis affect the Romanian agriculture?

The answer is decisively positive. Because the economy was extremely addicted to the external demand, the crisis will feel as strong as everywhere. Between 1877-89 and 1890-99 the export raised in quantities on average with 32 per cent but in value with 16.5 per cent (Gheorghiu, 1936, pp. 137-8). Therefore, if we focus on wheat, we find that its price decreased continuously from 18 lei pe 100 kg in 1881, to 15 in 1888, then reached 18 lei in 1892, collapsed again to 14 in 1896 and 12.70 in 1902 (Jormescu and Popa-Burcă, 1907, p. 122).

Though it is growing more and more, the value of cereals (in thousands of golden lei) is in constant oscillation: 381,995 to 1864, 310,116 in 1873, 422,593 in 1875, 661,591 in 1880, only in 1892 it reaches 726,833 and in 1899 it decreases to 260,241 (Axenciuc, II, 1992-2000, p. 702).

As a preliminary conclusion, even the grains prices were falling on the long term the land prices continued – as we have observed – to rise. The rent will rise also: from 20 lei per ha in 1870, to 22,56 in 1880, to 32,79 in 1890, to 36,75 in 1900, to 48, 11 in 1906 (Axenciuc, II, 1992-2000, p. 276).

More, all that situation has nothing to do with an eventual agricultural revolution. Some landlords imported agricultural tools and machines but the productivity remained low as compared to other European countries.

This situation could be considered a paradox. The market evolution does not generate the effects that can be found in industrialized economies. More, if we focus on the agrarian incomes of the landed oligarchy we will observe that during the crisis the incomes were slowly rising.

Table - Great estates incomes

years	incomes (<i>gold lei</i>)
1891/1892	164.079.311
1892/1893	165.839.090
1893/1894	168.113.566
1894/1895	176.589.346
1895/1896	169.897.172
1896/1897	202.999.638
1897/1898	206.482.907
1898/1899	208.021.828
1899/1900	210.919.919
1900/1901	211.930.346

Source: Aslan, 1905, p. 170

Obviously, there are some explanation for this paradoxical trend. Since the late 1870s, the creation of the rail system has significantly reduced the cost of transport. As a compensation, all that was lost by reducing the grains value on the harbors' docks was recovered by diminishing transport cost to the harbors. According to a recent estimation, by improving the network railways the prices diminished three and later four folds (Axenciuc, 2008, p. 61).

I have employed the notion of “revolution” in the title of this chapter. A critical reader may contest that I sustain the existence of a land price revolution in nineteenth century Romania. Perhaps, the data we obtained from various sources may permit to talk only about an evolution of land prices.

However, beyond all this data, available documents in particular case proves that the price has increased from 85 lei per ha in 1853, to 101 lei in 1864 and 225 lei in 1903 (Radianu, 1904, p. 60). There are also assertions of very important personalities belonging to the landed oligarchy like John Lahovary, who appreciated that the estates in Ilfov and Vlașca – situated in the neighborhood Danubian Giurgiu harbor and the capital of Wallachia – were sold by 1829-1830 with 6 to 12 lei per pogon, so that in 1900 the value of the pogon would rise to 450-500 lei (Angelescu, 1943, pp. 847-848). It results that the price of the land would have increased by about sixty, seventy times or even more.

On the other hand, in the United Kingdom, excluding the period of 1803-1815 affected by the Napoleonic Wars and the continental blockade, when prices doubled, until the early 1870s, there is no spectacular rise in prices even the grains demand exploded (Fischer, 1996, p. 161). By comparison and as a conclusion, in XIX century Romania there was a “land price revolution”.

The data collected on the eve of World War One pointed clearly that – despite some large estates which were mechanized – the productivity was one of the lowest in Europe (Janos, 1989, p. 345). In other words, the increasing trend had nothing to do with the any kind of “agricultural revolution”.

3.2. Booming Rate of Interest

As we have observed, the rise of cereal prices (until the 1870s) determined the rise of the land price or the rent as first effect. As we can imagine, the growth of landed wealth was an incentive for consume. As a result, the landed oligarchy taking as granted the brilliant future of the agrarian exports will consume more and more and will require more money on credit. As the loan contracts were secured by mortgaged land the local bankers promoted this consumerist behavior of the aristocracy.

Towards the end of the eighteenth century, the rate of interest was between 10 and 12% (Constantinescu, 1991, p. 227) significantly higher than in the central areas of the world economy such as the United Kingdom where the statutory interest rate was 5% (Berend, 2013, p. 152). The Moldavian civil Code (1817) and the Wallachian regulation as well (1818) imposed a legal interest rate of 10 per cent per year.

The lack of modern commercial banks and of a central bank as well were conditions for the explosion of the usury (Băicoianu, 1932, I, p. 336). In early 1830, the usual interest rate reached 12 per cent; some year later 18 per cent. Even the public loans will be contracted with a rate interest from 12 to 18% percent (Constantinescu, 1991, p. 231). The unusual high rates became slowly the ordinary custom.

While the foreign trade was continuously growing the rate of interest was rising. “The loan interest is very high”, lamented a French diplomatist at Bucharest (Colson, 1839, p. 234). Romanian economist John Ghica was also astonished by the rates which reached 18, 24, and even 40% (Ghica, 1956, p. 291) while the historian Nicholas Bălcescu noted that the interest rate which reached 50% made inaccessible the loans for peasants (Bălcescu, 1956, p.110).

By the middle of century, according to Prussian consul at Bucharest, the rate of interest fluctuated generally between 48-60% (Neigebaur, 1848, p. 290); French economic reports presented a similar situation in the 1850s (Lefebvre, 1857, pp. 11, 314-315).

In Moldavia the trend was similar. According to the economist Nicholas Șuțu the rate fluctuated in 1852 between 18 and 24 % (Slăvescu, 1941, p. 446) and in 1855 between 24 and 30 (Slăvescu, 1941, p. 482). In the 1860s, probably as an effect of the European economic crisis, the interest rate reached its climax and high rates became usual in commercial activities (Băicoianu, 1932, I, p. 249).

All this trend was perceived as a dangerous economical phenomenon from the early 1830 when are mentioned the first appeals or projects to found a central bank or discount bank as well (Băicoianu, 1932, I, p. 214).

Unfortunately, none of these became reality except the *Banca Moldovei* founded in 1856 as central bank of Moldavia, which after issuing a series of banknotes entered in bankruptcy in 1858 and lost its issuing privilege.

Too later perhaps, as a response to these levels of interest rate a group of great and middle landowners founded in 1873 the first rural credit institution whose rate of interest for loans with land mortgaged was 7% (Băicoianu, 1932, I, p. 252). Well managed it contributed to the fall of real rate of interest to 5,56% in 1882 (Băicoianu, 1932, I, p. 253). The foundation of the *Banca Națională a României* as central bank in 1880 put officially the end of the “usury era”, even the interest rate was higher than in the Western states and the discount rate oscillated between 4% and 9% in crisis period (Axenciuc, III, 2000, p.75).

It doesn't mean that the credit became much more accessible. For many, enterprises which faced the fierce competition of the Western industries the interest rates remained a serious impediment for their development or surviving.

This evolution was not unique. Even we limited our observations to Moldavia and Wallachia, in this context, we must add that in Habsburg Transylvania, where the money circulation was better regulated, the usury was a common practice in the 1850s and the local entrepreneurs were borrowing with greater interest rate than the Austrian ones. The general situation changed only in late 1860s, when emerged more than forty commercial and savings banks (Constantinescu, 1991, pp. 354-355).

4. The Oscillations of the Secondary Sector

It was generally admitted by the “dependence theory” that the increasing international commerce brought the secondary sector to collapse. It is true that faced to the fierce competition of Western goods most of the modern factories² were bankrupt in the late 1860 or early 1870 (Hitchins, 1996, p. 183) and only a few managed to survive especially by selling their goods to the state or by being subsidized by the latter.

The data indicates that the industrial development on a whole which began slowly in the 1830s confronting all financial vicissitudes was a trend that cannot be denied. Nevertheless, the rhythm was reduced by 1860s. On short, if in Wallachia there were registered 14,7 thousand craftsmen as guild members (1831) (Oprițescu, 2001, p. 86) and in Moldavia 8,530 (1845) (Platon, 2013, p. 368) the total number (adding the industrial works) will reach 137,4 thousand in 1862 and 327,6 thousand in

² We understand by factories production units with a large number of workers or using engines in order to grow productivity.

1912 (Axenciuc, II, 1992-2000, p. 24). Of course, we have to analyze carefully the numbers registered in 1831 and 1845 because the purposes of the investigation were essentially fiscal so many craftsmen avoided the officials – especially in the rural areas – in order to not be obliged to fiscal duties.

Anyway, the evidence suggested that the number of people involved in so called “industrial activities” was increasing from 1831 to 1913 as nominal number and proportion but probably the increase was quicker between 1831 and 1862. By consequence, the markets’ integration didn’t stop on the whole the growth of the industrial activities.

However, despite the emergence of modern industries subsidized by the state in the 1880s the number of the industrial workers was smaller than in the Western states, and therefore by 1913 the industrial population represented only 8-9 percent of the active population. Obviously, that data positioned Romania on the last places in Europe.

5. Returning to Theory: The Vicious Circle

The idea of a “vicious circle” which impeded the economic development in peripheral areas is not a new one. It appeared in the works of Ragnar Nurkse which developed under the name of “vicious circle of poverty”³ (1958, pp. 4-5) and will be reformulated by Paul Baran (1957, p.164-176) and completed with non-Marxist elements by Gunnar Myrdal (1957, p. 29). All these could explain at theoretical level the evolution of nineteenth century Romania, but the data I have exposed will complete the image with real facts and will focused the attention on economic and social elements neglected by the economists.

As we have just observed above the integration in the nineteenth European economy generated the two main effects.

The first one, the land price revolution affected seriously the peasants. As a consequence, having no access to loan in order to buy land the rich peasants – which were emerging in early 1800s as social strata – diminished or even vanished because their wealth consisted in cattle and common pastures were slowly reduced by aristocrats in favor of arable land. Later, despite the generous wishes of the authors, the agrarian reform of 1864 proved to be vicious for the peasant farm and consequently for its economic evolution. On one hand, by making the peasant owner only of the land he cultivated by huge compensation the ancient rights on the commons (forest or pasture) were practically lost. The peasant became totally addicted to the great estates. His land was insufficient to offer an income

³ On short, the low-income level is a result of low productivity, which is a result of low level of investments, these are low because the savings are low and their law level is determined by the law productivity.

and money to survive, to pay the increasing taxes and the compensation to the landlord. He had to lease some land from the landlords in overwhelming hard terms that added to the population growth impoverished him. His economic situation was so deteriorated in the 1880s that the foundation of County Credit Institutions or the *Banca agricolă* (1893) were real failures. Interest rates between 7 percent and 10 percent made generally inaccessible loans to improve productivity until early 1900 when the first cooperative banks were founded (Pintea and Ruscanu, 1995, p. 92).

On the whole, the peasantry became slowly a levelled class and an impoverished one. There will not be a rich class of peasant interested and able to invest in agricultural machines as it was in France, Denmark, United States or even Russian Poland; impoverished peasants in an agrarian country meant small market for industry. Only since 1900 it seemed that a small sector of rich peasants emerged (Adam and Marcu, II, p. 186).

On the other hand, moving to the urban areas was not a choice for the most of the peasants for there was no industry – at the Western level – in order to absorb the enormous rural masses and no perspective for such a industry.

The second effect, the high interest rates, shaped the Romanian economy in general at least until 1880. The landlords will lose opportunity to invest in agricultural machines or tools and therefore, no agricultural revolution took place.

Unfortunately, the high interest rates will affect strongly on long-term the industrial sector because obviously in a small market it is quite impossible to make profit when rate of interest is so high. As remarked the well-known economist Michel Chevalier, in his foreword to a report on the Wallachian economy, in this situation “it is impossible to start enterprises which need to be financed on long term” (Lefebvre, 1857, p.11).

Practically, despite real opportunities the few heroes of industrialization were paralyzed earlier or later when they needed money to invest in mechanization or to develop their enterprises. E.g., under the enormous pressure of the growing imports, encouraged by the symbolic tariffs, most of the textile modern factories collapsed in late 1860s (Hitchins, 1996, p. 183) even there were entrepreneurs or people interests in such investments, even main raw materials were abundant on local market and there was enough work force, added to the enormous pressure of the imports. The situation was the same in other industrial sectors and aggravated by the 1870s.

All these facts show that the inappetence for industrial work or industrial investments – as it was claimed in the epoch – was not the real cause of the industrial failure. Obviously, high interest rates are not the only cause of the stagnation or collapse of the modern industries. Of course, bad management sometimes contributed to such a result. Probably, there are also in particular cases other causes of lesser importance in my opinion, and if one argues that the industrial revolution in England

has occurred without a serious involvement of the banks, we must retain that in the second half of the nineteenth century the Romanian industry competed with a well-developed foreign industry whose progress was closely linked to the financial contribution of the banks.

High interest affected also the internal trade and from the late 1830s up to the 1880s. In fact, this evolution was quite normal because as Braudel suggested (II, 1979, p. 382) the investments reorient slowly to these economic activities where the rate of profit was high at least on short term (foreign trade, estates leasing, speculative finance and later the extraction of petroleum).

As a preliminary conclusion, the integration in the European economy formed with the previous economic and social structures – described above – a vicious circle of poverty which marked until 1918 the Romanian society no matter the moment we choose.

Therefore, it is an error to investigate if the causes of backwardness were exogenous or endogenous; the research have to focus on social and economic vicious circle which contains exogenous and endogenous elements.

The last topic that must be discussed is the role of the state because the state has always pointed the development path by the public policies that it can impose. From this point of view, the state formally continued to exist from Medieval Age to the present but it was in fact dysfunctional not to say a weaken one. The prince, supposed to be an absolute ruler, was assimilated to a high official of the Ottoman Empire in early 1800. Even after 1821, when the rebellion forced the sultan to elect only Romanian nobles or after 1831-2, when the Organic Statutes regulated the election of the prince by the estates, he had no authority that a Western or Central European monarch had in that time (Iorga, 1934, pp. 13-14).

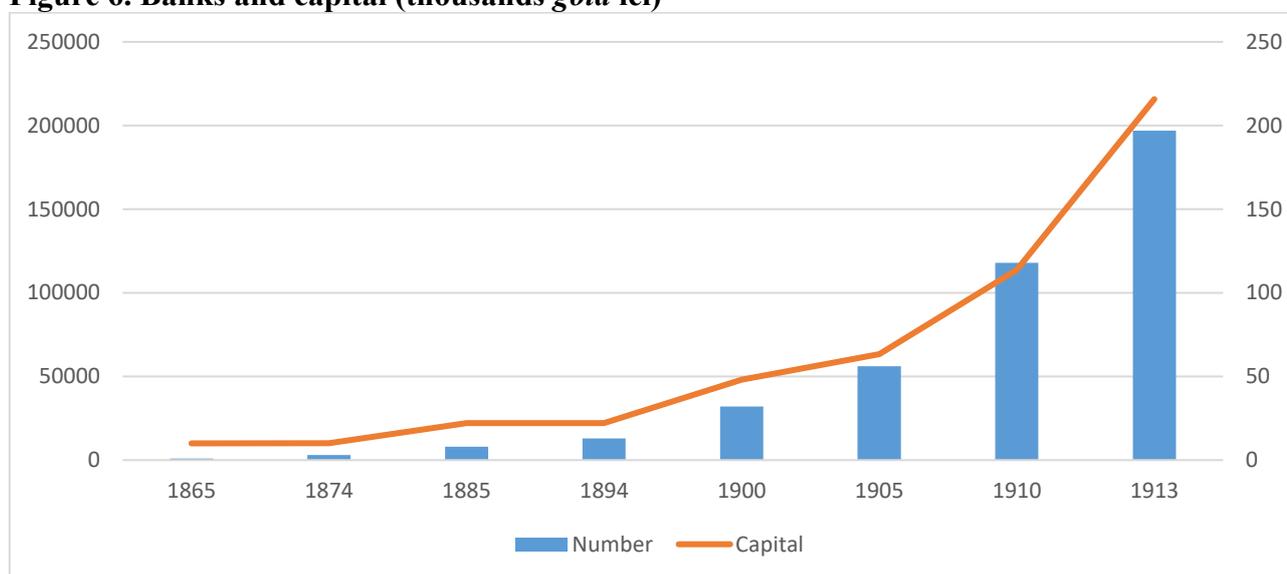
One of the main effects of the Organic Statutes was that the political power was exerted by the oligarchy. Of course, *prima facie* there were elections, there were newspapers and debates, and the public space began to be shaped, but beyond the personal disputes between the princes and the landed oligarchs there is no conflict or equilibrium. The prince acted generally in the name and for the landed oligarchy being himself a great landowner. By the failure of the 1848 revolution, the state continued to be at least until 1856 a state of the aristocracy and the constitution from 1866 didn't change significantly this fact.

Therefore, if the state was unable to implement policies other than these were favorable to the interests of the landed oligarchy, we can consider it as another element of the vicious circle. Minimal funds for public education (Aslan, 1905, p. 97) means poor educated people while minimal funds for hospitals or roads means poor public health or high price of transportation.

The general situation changed slowly only in the 1860s when prince Cuza implemented some imperative reforms – even the agrarian reform was not a success – creating modern institutions. His actions showed that the society can be reformed by above, and on a wave of nationalism the liberals

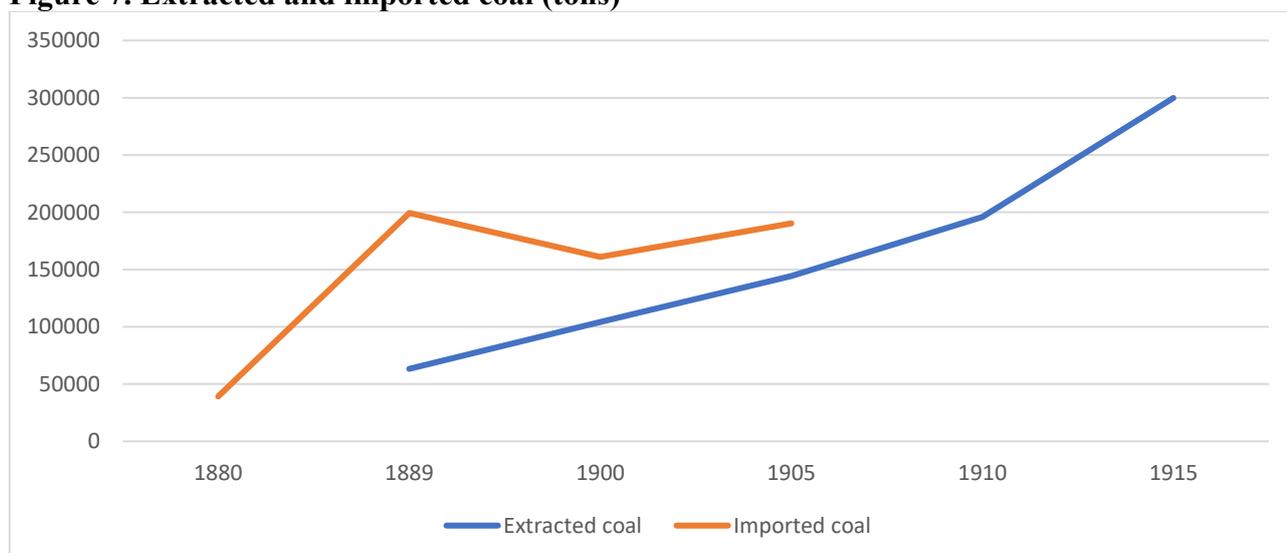
led by John C. Brătianu managed to create the economic and social institutions that Romania needed from the beginning of the century. With state and private capital, a central bank was founded in 1880 – *Banca Națională a României* – and by regulating the financial market a modern financial system was finally established (Fig.6). The state also initiated the prospecting for mineral resources which offered cheaper energy for infant industries (Fig.7) while the acquisition of the bankrupt railway network in 1878 determined the foundation of the modern Polytechnic Institute in order to have qualified personnel. More, a protective tariff, a modern commercial code and some laws to encourage the industrial investments were adopted as well and therefore by 1890s some industrial sectors (including textiles) were recovering exactly when the modern banking network was extending.

Figure 6. Banks and capital (thousands gold lei)



Source: Axenciuc, III, 1992-2000, p.96

Figure 7. Extracted and imported coal (tons)



Source: Dragomir, ‘Economia energetică’, in *Enciclopedia României*, III, p. 609; Axenciuc, III, 1992-2000 pp. 384-389.

Discussions

This study found that the markets' integration generated two major economic long-term effects which impeded a peripheral space like Romania to develop as an inner oriented economy like the Western states did and reduce the gap.

It made possible a complete and new image of peripheral economic evolution on the traces of other studies which didn't analyze the two issues in detail. It pointed also that the opposition between endogenous causes of backwardness and exogenous causes can be transcended because, as we pointed, the markets' integration formed with the internal economic and social structures a complex vicious circle which permitted only a slow development in strong connection with the demand from the Western markets.

The research was limited to two provinces of actual Romania because of the absence of data, but the findings can be useful for a future research which could determine if and how other peripheral spaces surpass these impediments.

Final conclusions

On short, we sustain that the collected and synthetized data prove that the markets' integration, especially since 1829, made more accessible the goods of the Western industries to the elites which changed their previous mentalities and daily behaviors. They adopted consumerism habits based on the strong but groundless expectations that their incomes will grow permanently without make any agricultural investments. This gilded future of the agriculture encouraged the nobles to spend more than they afforded and the bankers to speculate extremely their growing needs of money by practicing high interest rates.

The entire economy will be deformed by these two major trends: the land prices "revolution" and the booming interest rates. Generated by markets' integration they will form together a complex vicious circle.

The investments in mining, industries or even modern agricultural techniques were discouraged by the high interest rates while the simple land acquisition was a sure and lucrative way to act economically to say nothing about the prestige and political rights of the landowner.

The peasants, despite the Reform of 1864 will have no means to improve their lands and no agricultural revolution up to the Western standard was possible. By consequence, the population growth, the soil degradation and the decrease of the international grains prices impoverished larges sectors of the peasantry while the great landowners become richer and richer and the middle class

was in fact stagnant. In early 1900s, despite some real effects of modernization, the society was much polarized than a hundred years before.

As the state was not a functional or a consolidated one in order to answer at right time to these complex challenges – and Romania was not at least to the 1880s – the economic situation worsened and the society fell behind instead of reducing the gap and becoming a late coming in the industrial club.

As we anticipated, these conclusions have no any intention to blame liberalism as an economic ideology or international trade as an engine of growth, but to point that, in some specific cases, the markets' integration could bring competition, productivity growth and general prosperity, while in other cases it could generate peripheralization and a more polarized society.

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A historical perspective on the link between Romania and Europe, through the dynamics of spiritual values

Coculiana ACĂR*

Abstract

An important lever in establishing and maintaining relationships between Romania and Europe is the presence of spiritual values. The proposed theme identifies and analyses spiritual values in a European context on three temporal coordinates: the 16th - 19th centuries, the interwar period and postmodern period. This topic addresses the cultural specificity of Romania in relation to Europe. Spiritual values shape national identity that has a special role to play in defining a people's culture. The important moments in the synchronization of the Romanian culture with the European one were marked by the Romanian humanists who played a special role in the formation of the historical consciousness that contributed to the evolution of the Romanian people. Subsequently, representatives of modernism promoted Western civilization among the Romanians, favoring the opening, but within certain limits, to the Western culture, in the sense that they preserved the values specific to our people.

Keywords: spiritual values, culture, Romania, Europe

Introduction

Since the issues that concern us and which we are pursuing are related to the role of spiritual values in the performance of the link between Romania and Europe, we proposed an axiological vision of the historical time that defined the relationships between Romania and Europe through the convergence of the three chronological aspects: the 16th - 19th centuries, the interwar period and postmodernism. In support of this goal, we endorse the “axiological vision of history by which we see an axial historical present through the social life it represents, the past through the treasure of inherited values and the future through the prospective values that it inspires them, towards the fulfilment of imperatives in the offing” (Isac and Stănciulescu, 2006, p. 54).

To that effect, investigating the meanings given to values, we can distinguish two senses: on the one hand, the term value refers to objects, man's products, found in expressions such as:

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“universal culture values” or “antiquity values”; on the other hand, the value denotes features that characterize man, for example: “moral values” / “spiritual values” (Culda, 1982, p. 185). Starting from the idea that man adhered to values, integrating them as principles of conduct in all actions of life, history imposes human consciousness as an objective “culture to educate mankind!” (Isac and Stănciulescu, 2006, p. 53).

So, in the proposed approach we will follow the availability of spiritual values in establishing the collaboration and integration relationships of Romania at European level; that is why “spiritual values, sustained axiologically, become real, objective and operative factors in the life of man and society” (Isac and Stănciulescu, 2006, p. 46). We propose an axiological vision of historical time, in relation to Romania and Europe, an integrative vision that considers past, present and future in an interdependent functional and unitary continuity. A historical component is the knowledge and understanding of the past as indispensable to the construction of the future.

The European Union is today the main way of preserving the spiritual values of the member countries. With an obvious cultural identity, Europe is defined both by characteristics common to the cultures of different ethnicities and peoples of the European geographical area, as well as by characteristics specific to them. Romanian culture, like all cultures of the European continent, could develop only in direct contact with the European culture. Concerns about the European idea arise with I.H. Rădulescu, not only at the level of concept, but equally civically and publicly. An example in this respect would be the magazine “Studii filosofice” (1897), the first of its kind in the country; the “Societatea de Studii Filosofice” (1910) is then founded, which later becomes the “Societatea Românească de Filozofie”.

Another relevant aspect is the contribution of Romanians to European culture in all fields: art, philosophy, economy, sociopolitical organization. Thus, Romanian intellectuals who took the path of exile after 1965: S. Alexandrescu, M. Călinescu, Virgil Nemoianu, as a result of their perception with the Western cultural environment and the process of redefining their own identity, need to overcome some primary disjunctions, such as: Western / Oriental. The historical or moral condition of the European man also has an unusual dynamics.

The second category of characteristics defining European identity is that of the particular traits specific to the other cultures of Europe, due to which there is this diversity that forms one of the main riches of European civilization. Romania occupies a respectable place within the original civilization and culture, no less European, even if on the outskirts of the continent. EU construction begins to turn into practice after the Second World War. The cultural unity will be maintained thanks to the intellectuals who keep the ties and promote common ideas.

Europe is not isolated, but in full process of globalization, subject to changes that take place quickly. EU is a planetary model, despite the problems it faces.

1. Romania in the 16th - 19th centuries - European type spirituality

The synchronization of the Romanian culture with the Western one is considered to start as far as the 16th - 18th centuries marked by four moments: the appearance of the printing press, the writings of the chroniclers Grigore Ureche and Miron Costin and the scholar Dimitrie Cantemir, the literary and historical work of the Transylvanian School of Transylvania and the activity of the young students from Paris during the period preceding the Revolutions of 1848. Hereinafter, we will refer to the role of the Romanian humanists in the formation of Romanian spirituality in European context, also highlighting some outstanding personalities of the 18th - 19th centuries who have contributed to the development of Romanian culture.

At European level, Johannes Gutenberg's invention of the printing press, 1448, promotes the access to culture for a wider audience. With the fall of Constantinople in 1453, Byzantine scholars take refuge in Italy by saving ancient writings and contributing to their spread in Europe. Romanian humanism manifested later than the European one, more precisely in the 16th - 18th centuries, the 17th century being considered the period of maximum effervescence of this cultural current. Coming from boyar families, Romanian humanist scholars have the opportunity to study in countries such as: Poland, Italy, Constantinople, which facilitates their contact with the European culture of that time. Through the themes approached: the history of the stirps and the Latin origin of the people and of the Romanian language, Grigore Ureche, Miron Costin lay the foundations of Romanian historiography. If we refer to Miron Costin, he can be considered a complex writer for that time being the author of lyrics, translations, and writings in Polish. Through the work "De neamul moldovenilor", M. Costin "released into circulation famous phrases" (Pricop, 2011, pp. 51-52), entered into the common language.

Considered the representative figure of the 18th century of our culture, Dimitrie Cantemir would be "the first European in the history of Romanian culture"(Constantinescu, 1972, pp. 189 - 190). In the 18th century, the century of Phanariot reigns, there was a contact, a communication between the Romanian culture and that of Western Europe, facilitated even by enlightened Phanariots. Constantinople, when D. Cantemir was studying there, was a great cultural centre, permeable including to Western culture. The Moldavian ruler finds an equally favourable context for cultural contacts with Europe after his exile in Russia, which during the time of Peter the Great knows one of the most pro-occidental eras in his history. Becoming a member of Berlin Academy in 1714, D.

Cantemir adopts the cultivated scientific discourse at that time in the European space. In 1716, at the request of the same Academy, the scholar writes “*Descriptio Moldaviae*” in Latin.

A special moment for the development of culture is the appearance on January 1st, 1840, in Iași, of the journal “*Dacia literară*”; the title is significant for the ideal of the Union. In the first issue of the journal, M. Kogălniceanu publishes the program article “*Introducere la Dacia literară*”, in which he emphasized the fight against the imitation that became “a dangerous mania because it kills our national spirit” and the translations, especially the bad ones. The ideas outlined in the program article and promoted by the journal are reflected in the Romanian literature of the middle of the 19th century. Kogălniceanu is considered “one of our first parliamentary orators, since 1857, but especially during the period of Al. I. Cuza, having a great power of persuasion “ (Manolescu, 1990, p. 212).

Another outstanding personality of the period under discussion is represented by T. Maiorescu who, through the vision of the cultural phenomenon, imposed with the article “*Against today’s direction in Romanian culture*” first appeared in the journal “*Convorbiri literare*” (1868), then in “*Critice*”. Maiorescu formulates the theory of “forms without substance” and takes a stand against the radical vice of Romanian culture of that period, the *untruth* manifested in all areas of political life, and not only. T. Maiorescu disapproves of the fact that young people who went to study in the West (France, Germany) starting with the first half of the 19th century took over the forms of Western civilization without being able to apply them to their own culture background non-existent at that time.

Apparently, at that time, the Romanians had all the forms of Western civilization (politics, science, newspapers, academies, schools, literature, museums, theater and even a constitution) without having the necessary background to adapt these forms. He is not against the takeover of external cultural forms, but they have to be adapted to the national specificity and anticipated by the creation of the background. T. Maiorescu’s conclusion is implacable: “For without culture, a people can still live in the hope that at the natural moment of their development this beneficial form of human life will emerge, but with a false culture, a people cannot live [...] because in the struggle between the true civilization and a tough nation, the nation is destroyed, but never the truth”. The theory of “forms without substance” synthetically defines the condition of Romanian culture of the second half of the 19th century, which “not only brings any benefit, but it is quite ruinous because it destroys a more powerful means of culture. The purpose of cultured people is to strengthen the background in order to normalize the reverse evolution” (Lovinescu, 1924, pp. 136 - 137).

We can conclude that the period of the 16th - 18th centuries singles out by the formation of the historical consciousness which is gradually achieved starting with the preoccupations of the humanists, and the evolution of the Romanian people was determined not only by the psychic background but also by the historical conditions, in order to define in the next century values on

which the political and social organization of the civilized world is based and on which EU will be subsequently built.

2. Interwar Romania and Europe

The 19th century spiritual crisis, when in Europe, along with the failure of the bourgeois-democratic revolution, it became apparent that the distance between the bourgeois artists and the intellectuals would be deepened by the outbreak of the Second World War. Hence the tendency of fronde expressed in violent terms along with the avant-garde. In Romania, this general context is justified by the fact that the cultural institutions are hardly consolidated, and the Great Union is a defining moment for the Romanian culture, which feels the need for new, Western values but placed on the field of traditional ones, which partly explains both the success of traditional currents (poporanism, gânderism), and the national concepts validated by the books of some intellectuals such as N. Iorga (“Istoria românilor”), C. Noica (“Pagini despre sufletul românesc”), N. Ionescu, M. Eliade (“Tratat de istoria religiilor”, “Sacru și profan”, etc.).

Romanian modernism was formed around the magazine *Sburătorul* (1919 - 1922 / 1926 - 1927) and the Literature circle having the same name (1919 - 1943), which appeared under the direction of E. Lovinescu. He takes over some of Maiorescu ideas, but polemically relates to the theory of “forms without substance”. E. Lovinescu supports the imitation theory taken over from the French psychologist and sociologist Gabriel Tarde. Related to the imitation theory is the principle of synchronism, which supposes the acceptance of the exchange of values between cultures, the acceptance of the elements that give novelty and modernity, ideas exposed in the works: “Istoria civilizației române moderne” (1924 - 1925) and “Istoria literaturii române contemporane” (1926 - 1929). The critic pointed out that in the interwar period, Romanian civilization had become to look more and more like the Western one. Urban social classes, namely the bourgeoisie and intellectuals, have had and will have the role of promoting the Western civilization among Romanians.

Another orientation in Romanian culture during the interwar period is represented by the traditionalists who were looking for models for Romania’s development in the autochthonous past, considering that the cultural imports from the urbanized West do not fit our national specificity. Most of them grouped around the magazine “Gândirea”, led by N. Crainic. He takes over some of T. Maiorescu’s “forms without substance” ideas, going to the militancy in favour of the national soul, but engrafted on the basis of Orthodox spirituality. The program oscillated in two directions: on the one hand, Blaga, who, through the ideas exposed in “Revolta fondului nostru nelatin”, pushes the tradition beyond the boundaries of the autochthonous Middle Ages, into prehistory and myth

(Romanian mythic time); on the other hand, N. Crainic promotes a theorized orthodoxy in the program article “Sensul tradiției”.

Not being located in the centre of Europe, Romania has a “marginal culture” (Alexandrescu, 2000, p. 36), but not inferior, because the edges, where cultures interfere, are the most creative, forming an interference culture. Starting from the specificity and stylistic unity of any cultural fiction (individual or collective), L. Blaga elaborates the “stylistic matrix” theory, as follows: the stylistic matrix represents a system of forces, acting as *stylistic fields*. L. Blaga applied his theory about style to the Romanian spiritual phenomenon, defined as a *mioritic space*, characterized by an undulated spatial horizon, advancing wavelike temporal horizon, a *sophianic* transfiguration attitude of reality and a definitive forming aspiration through orientation to geometric and stichic forms.

Representatives of “Gândirii” core have had a quite intimate contact with German culture that will influence the way of thinking and approaching culture in the European space. In particular, “Blaga will be fascinated by Goethe, Nietzsche and Spengler. He immediately became aware of the new trends in German art and literature in the capital of the Austro-Hungarian Empire towards the end of the war” (Crohmălniceanu, 1978, p. 61). This explains why the ideas promoted are “perhaps less an aesthetic problem than a metaphysical one” (Crohmălniceanu, 1978, p. 64). In the spiritual crisis he was going through, Europe was looking for an “ethos literature”, the latter was called upon to achieve “in the vision of a new Cosmos, the organization of the chaotic content of the time.” Blaga regrets the fact that the aspiration towards absolute of modern art does not find enough correspondences in the rest of the manifestations of human life because “the vegetation around us shows painful gaps [...] Europe is about to create a new dogma and new spiritual collectivism or a church” - an idea developed in the “Dogmatic Aeon” of 1931.

Concerning the Romanian specificity, C. Noica in the work “Ce e etern și ce e istoric în cultura românească” (1943) submits to the analysis three distinct moments of Romanian history (16th, 18th and 20th centuries) to which are associated three cultural personalities: N. Basarab, D. Cantemir and L. Blaga. The thesis of the Romanian eternity, successor of Hegel’s philosophy, is followed by the antithesis of the history, the criticism of Romanian permanencies, so that Blaga’s philosophy represent the synthesis in which both the “nostalgia of unchangeability and the modernist passions” melt (Noica, 1989, pp. 23 - 24). He is convinced that he belongs to a minor culture (minor in Blaga’s sense), that is, an early cultural age and not a distinct qualitative category compared to major cultures. “Our popular culture, although minor, has achievements comparable to those of large cultures” (Noica, 1991, p. 7).

We can see that modernity can be approached both historically and artistically, but often in ideological incompatibility. Characteristic of the modern idea is the rupture of tradition and the

rejection of classic models, whatever they are. M. Călinescu speaks of the negative passion of modernity that manifests by rejecting or doubting all valuable hierarchies and systems of ideas created in previous periods.

3. Romanian postmodernism in European context

In Western Europe and USA, postmodernism asserts itself since the 1960s of the last century, the relationships with the previous era being the natural ones. In postwar Romania, we could not talk about continuity, but about a hiatus. At the cultural level, the brutal rupture with the interwar tradition is the result of the imposition of socialist realism, whose main feature is the vassalage of the entire spiritual life by the proletkult official propaganda. The phenomenon takes on aberrant proportions, especially between 1950 - 1960. The relative ideological and political relaxation between 1965 - 1970 allowed a partial restoration of the links with interwar modernism, at least in part, a model in the ambit of art, of intellectual activity in general. Postmodernism has a predominantly cultural and artistic component.

If in America, until the 1960s of the last century, postmodernism had been a “classifying, unclear, and all-rounder” concept, and it remained afterwards a “hybrid, ambiguous” one (Călinescu, 1995, pp. 233, 238) hypothetically, postmodernism in Romania is defined by its reference to modernity and modernism, as “a temporal and historical concept” (Frank *et al.*, 1995, p. 67) which designates the way we understand the present in its historical, unique actuality, that is, in what distinguishes it from the past [...] and in what promises us for the future.

Among the attitudes of postmodernism, at least two of them are fundamentally different in composition with the modernist ones. First, the attitude towards the cultural and artistic tradition that they do not reject with the same vehemence but from which they want to recuperate in a specific manner some components. Postmodernists especially reject the elitist tendency of art, modernist literature, trying to reconcile the “high” art with “mass” culture. The differences between modernism and postmodernism are highlighted by Ihab Hassan (1986), and somehow continued by David Harvery who claims that postmodernism, born out of modernism, has “continuity” relationships in regard to it rather than “difference” (Harvery, 2002, pp. 342 - 343). According to others, postmodernity is even “the thoroughness of modernity” (Patapievici, 2002, p. 115) or “the cultural, artistic and ultimately philosophical epiphenomenon of postmodernity” (Cărtărescu, 1999, p. 79).

As a self-conscious movement, Romanian postmodernism asserts itself through the poets and prose writers of the 1980s, for example M. Cărtărescu, the critics: E. Simion, N. Manolescu, Radu G. Țeposu, I. Bogdan Lefter who emphasized the role of the group in establishing the concept of

postmodernism and postmodernist poetic style in our country. Literary creation has often been a way out of the pressing and degrading reality. Moreover, their creation is “a kind of «cultural guerilla»” fighting with the demons of the overtechnicized society (Crăciun, 1994, pp. 133 - 136), among which were the “aberrant” ideologies as well as fanaticisms. It is thus confirmed that poetry was consciously constituted as part of what was later called the “resistance through culture” of Romanian society. Among the many changes in optics introduced by postmodernism, M. Cărtărescu also mentions the fact that, for the poets of his generation, the priority model is no longer the French one. On his own poetry and the poetry of the 1980s in general, a decisive influence was exerted by the American poetry of the Beatles generation from which was taken over not only the ideology, but the “rhetorical, realistic and visionary” realism with roots in Walt Whitman, as well as the long, narrative “agglutinated” and “aggressive” poem (Cărtărescu, 2000, p. 154).

“Authentic” modernity means in contemporaneity, open society “individualistic and democratic values, [...] market economy” (Călinescu, 1995, p. 80). There is a distinction between the modernity of the social life ambit, where it means industrial and scientific revolution, the victory of capitalism - a “rationalist, optimistic, cosmopolitan modernity” and “aesthetic, polemic modernity” (Călinescu, 1995, pp. 7, 86), in essence. Postmodernist ideology is often placed by analysts in the descendancy of Nietzsche’s philosophy that “doubts the reality” characteristic of postmodern spirituality (Lyotard, 1984, p. 145), that is, the ability of science and philosophy to fully know the reality and to provide the basis of a rational organization of the world. We observe that the postmodern civilization man no longer tends towards absolute truth, but to what can lead him to the practical results as quickly as possible, to the increase of the activities’ efficiency of the pragmatic ambit. Thus, “one of the paradoxes of postmodern civilization would be the promotion and defence of individual values, but through the ever-increasing globalization that increasingly restricts the possibilities of manipulating these values” (Huchon, 1997, p. 89).

We can conclude that in postmodernism, the place of culture is taken by the technique based on pragmatic and limited intelligence that “seeks meanings to integrate into the world” (Patapievi, 2002, p. 286). Thus, postmodern multiculturalism based on the idea of equality of all cultures is unlikely to be achievable, because equality is not a natural value. Most likely it means “irrationality, anarchy and threatening indeterminacy” (Cărtărescu, 1999, p. 85). By virtue of this vision, postmodernism is considered a “dead end” (Patapievi, 2002, p. 15) of knowledge, a dead line in culture. The society will have to rely not on universalist ethical codes, but on what naturally exists in the individual being of man, “moral impulse”, “moral ego” (Bauman, 2000, p. 234) moral responsibility, sociability.

Conclusions

In the aforesaid, as an axis over time, we could notice that Romanian spiritual values propelled especially by writers, cultured people of the time have always related to European level because “the international recognition of Romanian culture depends essentially on intellectuals and artists” (Marino, 1976, p. 56). European Romanians from D. Cantemir to T. Maiorescu, from L. Blaga to C. Noica, M. Eliade, M. Călinescu, etc. through their contributions to the contact with European culture brought Europe home.

Having an open mind but not followers of the imitations, M. Kogălniceanu, T. Maiorescu continuing with E. Lovinescu have been important levers in the direction of promoting and synchronizing a European culture but keeping and adapting our national specificity. Romania, after the First World War, was in a continuous dynamics and rapidly synchronized in all fields with the countries that were the pillars of European civilization. After the Second World War, taking over some cultural models became more problematic, ambiguous in a certain sense: the philosophy was placed around frameworks of European thinking. The West does not only mean a number of major cultures, they also exist in other parts of the world, but a number of centres of world cultural management.

For Romanian culture, the synchronization process began in the 1980s against the official trend imposed by PCR. The first generation of postmodernists sought their identity especially in the detachment from interwar modernism. External factors have led to the uniformity of the European life conditions, to openness, acceptance, and an approximate levelling of cultures.

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The role of informational technologies in creating a personalized customer experience: a case study of tourism branch in Ukraine

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Abstract

Personalizing relationships with clients for the tourism industry is an extremely important factor in the development and profit making, since communication in tourism involves close interaction with consumers and their individual requests and wishes. Ukrainian companies, that implement the principles of personalization often face the lack of scientifically based methods for preparing and adopting managerial decisions using modern information technologies. An analysis of the activities of domestic and foreign tourism enterprises regarding the personalization of relations with clients shows that at the present stage there is a tendency to switch from a strategy of concentrated marketing to a strategy of personalization, where each client is offered an individualized service complex. As a result of the scientific search, there have been offered various innovative ways and means of optimizing the work of tourism company managers for personalized interaction with customers through Internet technologies, which include modern analytics services, information collection and processing, as well as tools that allow the creation of personalized emails, promotional advertisement, content, etc. The integrated implementation of modern personalized marketing tools ensures effective and long-lasting relationships with customers, which is the key to the successful operation of the company's tour in the market.

Keywords: marketing relations, IT-technologies, CRM systems, personalization

Introduction

Modern conditions of increasing competition push companies, including tourism ones, to constantly seek effective strategies for engaging and interacting with customers. The centre of influence, which determines the structure of relations in the market, shifts from sellers to buyers, to build long-term relationships with which is becoming more and more difficult. These conditions, form scientific and practical point of view, prove to be of interest for improving the effectiveness of working with clients.

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Modern information technologies allow to abandon the mass influence on a wide audience which loses its effectiveness, in favour of personalization - the establishment of trust relationships with clients. At the same time, Ukrainian companies implementing the principles of personalization often face the lack of scientifically grounded methods of preparation and adoption of managerial decisions in this area. As a result, the competitive personalization potential is dispersed and does not give the expected effect.

When used properly, personalization can prominently improve the quality of customer service, which in its turn, will convert the customer into an advertiser of the tourism company. In the past years the employed in both the hotel and in the tourism industry have realised the importance of the personalised approach towards the customer service. However, the task of creating a somewhat comprehensible business-strategy in accordance with the standards of the personalized approach has so far proven challenging.

Personalization of the customer service in tourism is still the crucial issue, resolving which will not be a simple task. The tourism agencies, that stress the importance of personalization of their services, should be very careful not to become overly persistent. The companies, that receive the in-depth data, have the highest chance of meeting the standards of the personalized customer service.

It is not enough simply to know the peculiarities of one's own customers. It is quite important to systematize the discovered data, connect it to the tendencies of supply and demand, store the data in the according database, analyse the data and make executive decisions in regards to the sales system, choose the management models and optimize their quality internally.

It is worth remembering that one of the most common mistakes while making an attempt to introduce personalization into the business of the tourism agencies is trying to approach the task using the already known tools. Instead, it is necessary to change the whole marketing strategy with the help of analytics, new IT-solutions and creativity.

1. The concept of relationship marketing

After studying the scientific sources regarding this issue of research, it should be noted that the works that mentioned and described the marketing of relationships appeared in the 1950-1960s (in particular, the works of Mc-Garry (1953) and Alderson (1965). Initially, marketing of relationships was proposed to apply only to industrial markets, as evidenced by the work of Adler (2003), Arndt (1985). A new wave of interest in personalizing customer relationships is the result of the rapid development of modern Internet tools that have significantly brought the company closer to the consumer and have provided unprecedented personalization opportunities. Domestic experts

Holovkina (2007), Lutsenko (2012), Krasov have joined the study of the peculiarities of the introduction of marketing of relations in modern Ukrainian realities, but mainly on the examples of industrial markets. The works of such domestic researchers as Reshetnikova (the importance of using Internet technology in the marketing of services) (2014), and Ilyashenko (internet marketing in the sphere of educational services) (2014) are devoted to the he issues connected with the use of the Internet technologies in the framework of relations with clients in the service branch. Such foreign scholars as Pejn (2007), Hembl (2002), D. Ford (2000) made a significant contribution to the development of the relationship with clients in the service sector. The peculiarities of marketing in the tourism sector were studied by Melnichenko (2013), Lukyanov (2012), Pravyk (2008) and others. In order to emphasize the importance of personalization of the tourism product marketing, experts note that "the main condition for the proper development of the product tour is the understanding of consumer behaviour and the ability to predict how it will change in the future" (Lukyanov *et al.*, 2012).

Having analysed the works of researchers in the relationship with customers, it should be noted that followers of the relationship marketing, as a rule, consider the importance of improving relations with customers, the purpose and means of achieving long-term relations, but inadequate, in most research, remains the question of personalization of the client and the tools of his qualitative identification. Also, this issue is not sufficiently highlighted in relation to the tourism industry, regardless of the relevance of the application.

In this regard, the **purpose of this article** is to find ways and methods for expanding the possibilities of personalizing relations with clients of travel companies on the basis of Internet technologies.

According to the definition proposed by the American Marketing Association, marketing relations are the marketing, aimed at developing and managing long-term, trust-based relationships with consumers, distributors, suppliers and other parts of the marketing environment (Beck *et al.*, 2015). Kotler is defining personalization as a personalized offer that has been tailored to meet the needs of the target market or consumer demand (for example, timing the proposal to the birthday of the client). (Kotler *et al.*, 2007).

The urgency and importance of this issue is also emphasized by the diversity of scholars' interpretation, which is presented in Table 1.

Table 1. Characteristics of approaches to the interpretation of the definition of “Marketing of relationships”

Definition	Author
Creating, developing and improving individual relationships with carefully selected clients and groups of clients to maximize the total cost of their lives.	Pejn, 2007
The marketing result that continues to evolve and reflects its current state as the next step after the concept of socially oriented marketing.	Webster <i>et al.</i> , 2001
The general desire of all employees of the company to find all consumers, identify who they are, and maintain the relationship between your company and these consumers as long as these relationships are mutually beneficial.	Hembl <i>et al.</i> , 2002
This is the kind of marketing, which focuses on selling to one buyer the maximum number of products, rather than selling one product to the maximum number of buyers.	Matthews <i>et al.</i> , 2003
An approach, as a result of which the firm can get completely satisfied consumers and high profitability.	Novo, 2004
The strategy of two-side marketing is aimed at the "staff-consumer" link and is connected with quality control of the provision of services, the process of which occurs during the interaction of personnel and consumers.	Pravyk, 2008
Strategic, process oriented, interfactual and valuable for the buyer and seller method to achieve the highest financial efficiency	Lambert, 2010
This is a collection of practical methods of consumer retention. The main priority is to maintain and increase the clientele so that the complex relationships are mutually beneficial	Lamben <i>et al.</i> , 2014

Source: authors' compilation

The ambiguity of the interpretation and existence of different approaches to the definition of "marketing relationships", emphasizes the relevance of the selected topics of the study. In our opinion, the most detailed analysis of the approaches to the definition of "marketing relationships" was elaborated by Agaria (2011) and Singh (2011) who analysed the interpretation of foreign scientists from 1980 to 2010. The authors presented 72 definitions and stated that all definitions characterize the different approaches to the chosen concept, that is, "marketing of relationships" can be considered as a process of buying or maintaining relationships, or increasing profitability, or long-term customer orientation, or a win-win situation for all stakeholders (Agariya and Singh, 2011).

Based on the analysis of theoretical research and modern business practice, we propose the definition of marketing of relationships as an integrated concept of management of relations with consumers, aimed at maximizing the satisfaction of their needs on the basis of long-term interaction.

The peculiarity of marketing the relationship with the customer lies in the fact that the accent has shifted from the mass consumer to the individual one, thus, providing the maximum benefit to the individual client. Which leads to the benefit of the company serving the client - the consistency of the client through a strong "attachment" to the company providing individualized services.

The main factors that significantly affect the development of marketing relationships are (Butenko, 2006):

- databases (from creation to effective functioning);
- interactive dialogue with consumers (via communication: telephone, mail, chat, e-mail);
- personalization (identity of the consumer, taking into account his personal needs and wishes);
- forecasting and modelling the needs of consumers in the near and distant future.

Modern marketing communications are increasingly considered as an interactive dialogue between the company and its customers. The personalization of communications, as well as the ability to speak and do the right things for the right people at the right time, is critical (Novo, 2004), especially for the modern tourism business, where the client's decision to purchase a tourist trip is usually formed for a long time under the influence, on the one hand, tough competition in the agency market, and on the other - the lack of stable customer loyalty on the "young", unstable market. The process of choosing a standard tour package usually consists of many rounds of comparisons of the tours characteristics from several leading tour operators. The final choice is often the result of a decision due to personal communication with the travel agency manager who has helped choose from the large number of tourist packages the one that most meets the personal requirements of the client. In order to retain this client, it is necessary to create his unique profile, which will allow to make him the personalized offers, to encourage him to purchase a tourist service, and to form stable loyalty in the conditions where price competition is overwhelming and decisive.

2. Features of relationship marketing for the modern tourism market

Now, successful companies do their best to save their customers. To win a place in the modern market, companies must focus on the consumer - to give their target customers the highest value. Most markets are already quite stable, and not a lot of new customers are added to the main categories of goods/services consumers. Competition intensifies, and the cost of attracting of new customers grows. In addition, consumers themselves become increasingly independent and discerning. To remain competitive, a modern company should be well-informed about its customers. Traditional tools for customer study are too inefficient and slow for a rapidly changing market, so new business models are being developed and non-traditional solutions are offered.

Greenroos says that attracting of new customers costs six times more than achieving re-sales to an existing buyer. And if the customer remains dissatisfied, then his acquisition will cost six times more expensive for the company. In addition, researchers Rayhhold and Sasser have shown that if the company reduces the level of outflow of consumers by at least 5%, then it will be able to increase

its profit by 25-85%. Therefore, the personalization of relationships is a critical factor for modern business (Pravyk, 2008).

Relationship marketing refers to one of the key business philosophies of progressive organizations, including tourism ones, that focus their activities solely on the client. It is not surprising that today every consumer's attention is distributed between e-mail, personal visits, mail servers, and a variety of marketing messages from various companies trying to influence their choices. Therefore, the consequence of the development of marketing relationships can be considered the creation of CRM systems (Customer Relationship Management).

3. Use of CRM systems as a tool for personalization of the mass-market tourism

Marketing studies have shown that at this stage of the development and functioning of the tourism market, an important part of the success of the tourism enterprises is not only the provision of a stable supply of quality goods and services, but also the perfection of the establishment of interaction with both existing and potential customers. The consumer wants to maximize the benefit of his purchase at a minimal cost, and the seller wants to sell as much as possible and save the customer. This is the direction of the CRM-system - a system for managing customer relationships, which allows to solve the problems that arise when the tourism agent needs to communicate with the client promptly and without corresponding organizational tasks (time and place of the meeting, business trip) (Lutsenko and Bas'kova, 2012).

The strategy of CRM involves creating in the company such mechanisms of interaction with clients, in which their needs are the highest priority for the enterprise. This customer orientation affects not only the overall business strategy, but also corporate culture, enterprise structure, business processes. The use of an automated system allows minimizing the human factor in dealing with clients, increasing the transparency of activities in the spheres of sales, marketing and customer service, and clearly coordinates the interaction of various enterprise services.

The main advantage of any CRM system is the storage of all information on customer interaction in a common database. This allows fast and time-consuming to find information about the client, identify their needs and satisfy them quickly. At the same time, unlike other research methods, this is the real information about what customers are interested in products or services, and it will not only help to plan their sales, but also to detect changes in the market demand in time.

The focus of any CRM system is the client. Data in the system allows you to integrate the client into the organization - the company constantly receives the most important information about its clients and their needs (Pejn, 2007). Based on the data obtained and analysed, the company can create

such an organizational strategy that will cover all aspects of its activities. It leads to an increase in revenue, but along with this, there are many other problems for the solution of which companies are advisable to use in their activities such systems, namely:

- tough competition - at the moment it is more expedient to direct efforts to retain existing customers;
- versatility of relations - since contact between a client and an enterprise can be carried out by means of various communication tools, the client expects that all information received on these channels in the subsequent relations will be considered by the enterprise in aggregate;
- orientation of enterprises on marketing concepts.

The use of CRM systems at the enterprises of the tourism industry allows optimally planning and conducting marketing activities, managing resources and marketing costs. With their help, managers can plan and manage sales, evaluate and optimize sales channels. This significantly affects the result of the activity and ensures effective management of the work not only of personnel, but also of working with clients. The full history of communicating with clients, step by step, can help to keep the client and to help him to make the final decision.

So, in the range of activities of travel agencies, there are many online services that greatly facilitate and automate their work. If online booking of tours, tickets, transport for travel companies is already a common practice, then the use of CRM systems has not become as an obligatory attribute of firms in the field of tourism. CRM systems are designed to build long-term loyalty and customer relationships through the use of personalized contact technology facilitated. CRM programs go beyond the development of a database and traditional sales tactics. They cover product modifications to meet the needs of individual customers (Holovkina, 2007).

Using of the CRM system in the tourism industry is very important and effective tool for the effective client service. After all, due to a clear orientation on the needs of a specific client, the travel company will be able to satisfy them as much as possible, and the consumer will feel the high quality of services provided to him. The main objectives of using of CRM systems at tourism enterprises are: 1) operational (fast and timely access to information in the process of interaction with the client); 2) analytical (analysis of all the data contained in the enterprise and comparison of them with the wishes of the client and their own capabilities); 3) collaborative (the client directly participates in the enterprise activities and thus can influence the development of a service and product strategy).

The transition from mass to personalized and interactive marketing involves dramatic changes in the modern business in general and in tourism in particular. Especially these changes concern the style of communication between the company and its customers. Firstly, the company makes the efforts to reach each particular buyer, you can say, know him "in the face". Secondly, it is necessary

to take into account the specific needs of end users and try to eliminate the defects of the mass product through a well-developed process of the product delivery to the client. This opportunity arises due to transformations in the marketing and information technologies. The idea of personalizing of online and traditional offline communication with customers is not new for the tourism industry. Such personalization has always been sought in one way or another, mostly in the luxury segment. But the personalization for the companies offering the product of mass market has always been hampered by high costs. However, the innovation and data availability have changed the rules of the game. Now companies are much more aware of their customers. All this, as well as an active online environment with new points of contact with customers, allows you to change the approach to their service. Today personalization is possible and affordable. It is quite possible to implement it in mass market. It will permanently change the companies that implemented it and bring them to a high level of income and customer loyalty.

CRM gives an understanding that customers are generating revenue even after a while. Using such systems improves cost efficiency and interoperability. This means that the company is able to provide what the client wants in such a form that neither the company nor the client will waste extra time. What is more, the services or products offered to clients, as much as possible correspond to their needs and interests. The client, in turn, thanks the travel agency for long-term loyalty. CRM works better when customers have highly differentiated needs, highly differentiated ratings, or both. The key feature is to know exactly what the client wants, and to tailor the product or service to suit its needs. The greatest value for a CRM to work properly is the customer data, the maximum detail will allow you to have a happy birthday, remind you of hot deals, etc. It is important for companies specializing in providing services to accumulate as much detail as possible about customers and their orders, and then to process them in a quality and detail with CRM tools for detailed market analysis, to create their own customer profile, to see the most promising market trends, evaluate and plan marketing activities, etc.

The peculiarity of CRM systems is the storage of a whole array of customer data in a single database, with the ability to quickly and promptly search for information about it and identify needs with further maximization in their satisfaction. Such systems possess not only real information about the products in which the client is interested, but also allow them to react in a timely manner to the change of market preferences.

The main goal of using CRM systems is to identify the most "profitable" customers and maintain effective cooperation with them, preventing their transition to a competitor, which leads to increased revenue. However, it's worth remembering that technology can only help in formulating and storing the record and some aspects of the execution of the order. The rest is the responsibility of

employees who must understand the client and develop ways to adapt the services to their requirements. The disadvantage of any CRM system is that customers feel as if something is "pushing" them. An attempt to build relationships with an uninterested customer will be more annoying than to be of benefit, so the main thing is to have a sense of measure. By its very nature, the CRM-system is a tool aimed at systematizing consumer data with the possibility of personalizing them.

The implementation of a CRM system allows a travel company to gain the following benefits: increased returns when in contact with the consumer; obtaining reliable information about interests and wishes of the client through its entrance to the site; the ability to integrate the system with other operating systems; obtaining basic information about making informed managerial decisions; Individual approach to each client with maximum consideration of his needs; detection of the relationship between the interests of customers and the volume of their purchases; prompt response to changes in customer needs and system compliance to meet them. In table 2 shows statistics on the use of personal data by marketers for personalization (Jones, n.d.).

Table 2. Use of personal data for personalization

Data	Respondent percentage, %
E-mail address	57
Name	45
Geographic location	41
Demographics (age / sex)	40
Cookies	31
IP-address	33
Social ID (for example, Facebook, Twitter, Instagram)	30
Work-related data (company, department, position)	25
ID of the device	22
Social media ID	22
Postal address	20
Location data (weather, etc)	18
Client account data	18
Telephone	17
Way of life detail (property, pets)	15
Social influence (traditions, stereotypes)	15
Business related data	15
Family info	13
Psychographics (religion, political preferences)	8
Other	3
Nothing on the list	5

Source: (Jones, n. d.)

The main disadvantage of using such software is its cost, since its implementation is associated with high resource expenses. This involves both the cost of a license or the implementation of CRM,

and the cost of servicing and staff training, as well as the necessary updates and upgrades of such software. Such programs are designed to work through an operator or sales representative, which requires considerable time and financial resources. In addition, the value of the organization's staff is added, since more qualified personnel should be selected to work with such systems and continuously improve their qualifications. It takes much more time to make additional detailed data, and this very often frustrates the management of the idea of introducing CRM systems, as the number and qualifications of employees in travel agencies are usually not sufficient.

4. Study of penetration of CRM systems in Ukrainian tourism companies

To assess the real extent of the penetration of CRM systems in the technological processes of tourism companies in Ukraine, we conducted surveys of tourism companies, both well-known ones and small agencies from different regions of Ukraine, by sending an e-mail questionnaire. Of the 108 companies that were invited to participate in the survey, only 41 companies provided answers to the questionnaire, which in itself shows a low level of interest and awareness of travel companies regarding the implementation of CRM issues. The results of the questionnaire on the problems of implementing CRM systems in the tourism business are presented in the table 3.

As follows from of the answer to the question about maintaining a client base, it is clear that most companies use either specialized software (mainly for network companies) or MS Word or MS Excel elementary tables that do not meet the requirements of the database and offer very limited opportunities for analysis Ready-made analysis and forecasting templates in this way of storing customer data are either missing or cumbersome and inaccessible to an ordinary manager, which significantly reduces the value of that client list for future use.

Table 3. Results of the questionnaire on the problems of implementing CRM systems in the tourism business

Question	Multiple choice answers	Answer percentage, %
1 How do you keep your client base?	Paper journals	3
	Electronic documents Word/Excel	34
	Special apps	37
	Personally developed apps	24
	CRM -systems	2
2 Evaluate the level of your company's automatization	1-3	35
	4-6	36
	7-8	22
	9-10	7
3 Do you use CRM systems in your company's work	Yes	2
	No, it is too expensive	69
	Never heard of them	29

Analysing the answer to the question about the degree of automation of business of the company, one can pay attention to the fact that the vast majority of companies consider this degree insufficient, which shows the relevance of the issue in modern conditions. As for the answer to the key question, the third question of the questionnaire, it is important that most respondents are familiar with CRM systems, but their implementation in the day-to-day operations of companies is low.

29% of respondents have never heard of CRM systems, although their use in tourism industry companies would help to plan and conduct marketing activities, manage resources and spend on marketing in an optimal way. The absolute majority of surveyed tour operators noted the high cost of implementing CRM systems, without paying attention to the fact that the ability to plan sales, organize transparent transaction management and optimize sales channels will allow it to pay back its cost quickly enough. Usually the experts pay the greatest attention to the automatization of daily operational activities - the search for tours, the processing of documents, customer service, forgetting that the CRM system keeps a complete history of communication with customers, helps sales departments to analyse their behaviour, create and implement products that require promising customers. Such customer-orientation, personalization of relationships is the most useful in the field of service, where a good dialogue with the client is a key condition for success.

Summarizing the results of the study, it is necessary first of all to state the insufficient level of automation of the work of travel companies and the low degree of use of CRM systems in everyday work. The analysis showed that 71% of industry professionals are already aware of the possibility of using such programs, but in practice most are not yet ready to use them.

5. Complex of tools for implementation of personalized service in Ukrainian tourism

Specialized software used by modern travel companies is one way or another largely adapted specifically for tourism, with the ability not only to keep track of clients, but also to perform a number of special functions that are not subject to simple documents in Microsoft Office or classic CRM systems. These functions include: sales of tours, reservation of air and railway tickets and tours from tourism organizations, creation of own tours, accounting and financial prognosis, sending e-mail and text messages, preparation of documents for the tourist, storage of contracts and documents in the system.

When all the tools necessary for the agent are combined into a single complex, there is no confusion in the organization of the work of employees, and there is no need to work simultaneously in several programs, magazines and tables. The presence on the market of a large selection of software for tour companies (for example, Master-TOUR, Master Agent, SAMO-TOUR, SAMO-Tour Agent, Overia-

tourism, Parus-Travel Agency) allows you to fully appreciate the advantages and disadvantages of tourism software complexes in view of their functionality in terms of marketing analysis.

Such kind of exclusively "tourism" software often does not even have elementary functions of CRM systems, although it also requires the input of customer data and details of booked tours. However, manufacturers often pay attention to the "utilitarian" functions of creating, booking, promotion and tours, without paying due attention to the tools for analysis, forecasting, personalization of customer relations. Accordingly, the implementation of the CRM system is considered by the tourism professionals to be inappropriate, and tools for building a personalized relationship with the client in a special software to support operating activities are missing or insufficient to duplicate the functions of CRM. It is possible to solve these contradictions by means of an integrated approach that helps to combine the advantages of CRM systems with the most modern personalization tools through Internet technologies and the use of special operating tourism software.

In order to set up a qualitative system for personalizing customer relationships, you need to go through the following steps:

- 1) making a decision on the implementation of a personalization strategy, defining the main objectives and budget of the project;
- 2) development of business processes - each business process must be developed with the participation of managers, marketers and sales managers, as well as formalized in order to unify the approaches and understanding of all participants in the final goal process;
- 3) service settings - most services require the intervention of marketers and technicians who can correctly set up the work of each service and develop the links that are lacking for the full operation of those or other tools;
- 4) staff training - for the proper launch of personalization tools, we need really high-quality personnel, the travel company must spend time and money, or hire the right employee. The process of continuing training for staff is permanent - this means that the staff who is in direct contact with the client must know and constantly work out a clear customer interaction procedure, for example, that he asks during a conversation who can offer what data and where enter, at what stage there is a repeated contact with the client, etc.
- 5) realization of the personalization strategy - with the help of already configured tools and by using accumulated data, marketers and sellers work together on personalized relationships with clients;
- 6) analysis of the achieved results in terms of increasing the number of clients, increasing the percentage of repeated appeals, reducing complaints and penalties. If necessary, adjusting individual procedures and business processes.

In addition, it should not be forgotten that technology providers for travel companies (for example, Amadeus, Sabre) also develop and actively respond to market needs that provide technological opportunities for managing marketing relationships at tourism enterprises.

A recent study by IBM showed that more than 28,000 consumers support similar initiatives, while 59% of respondents said they were ready to supply service providers and agencies with extended lifestyle information and suggestions to be able to locate and receive tailor made travel products (Sweet, n.d.).

According to the latest benchmark report, the average abandonment rate in the UK travel industry stands at a massive 81% - meaning that over 8 in every 10 people who begin the booking process fail to complete it. Furthermore, holiday package bookers make almost 40 visits to travel sites on average before making their decision and normally over the space of 6 weeks (Clague, n.d.). But while these figures can be daunting, they also show the enormous opportunity for proactive hotels and resorts who are ready to re-engage with these interested potential bookers.

It has been found that the travel industry has a problem comparing prices and offers from different providers when making a purchase decision. With the fact that 37% of users purchase online travel services, travel planning is often time consuming and purchases will take place over several attempts, compared with many suppliers.

Moreover, statistics show (Clague, n.d.) that despite the steady increase in the share of online sales in tourism, most travellers prefer to complete the multi-stage process of buying a tourist trip offline, registering and paying the chosen trip to the agency. It was found that 31% of consumers ages 14 and older surveyed in Germany had researched trips and vacation packages digitally, but just 11% had paid for such packages online at all. Likewise, nearly 29% had researched components of travel, like flights or hotels, digitally, but just 15% had purchased them that way. The issue, then, isn't particular to mobile. It would seem that travellers in Germany prefer to buy offline in general.

The behaviour of tourists in Ukraine in general repeats these trends, so one should study the successful experience of increasing the number of purchases from foreign travel companies, adapting the latest on-line tools for the Ukrainian tourism market.

Analysing the positive experience of the leading travel companies in the world and the latest trends in marketing communications, we can offer the main elements of the strategy of the tourism company's activities in building a sustainable personalized and mutually beneficial relationship with the tourist:

- 1) collecting customer data by a clear algorithm in accordance with the established business process and bringing them to the CRM-system;

2) use of all possibilities of the CRM-system for personalization of relations with each client, including, in phone conversations;

3) personalization of emails in content (addressing a name, offering in accordance with the interests of the client, building chain of letters, tracking events in the life of the client) and design (adaptive design);

4) personalization of the website - adaptive design, creation of custom sections, personal cabinet, subscription and its settings, offers according to the location of the client, personalized content of the site according to the last session of the client, creating a stopper - a popup message that contains a call and motivation (for example, discount) for the client before leaving the website of the travel company;

5) communication in social networks - adherence to recommendations on content proportions (70% - traditional low-risk content, 20% - innovative content, based on successful development of the past, 10% - fundamentally new ideas of high-risk content), shares and special offers for page subscribers in social networks, activity in social networks of company executives, connection of additional services (for example, inTarget);

6) advertising in social networks - the choice of the target audience of interests, interaction with the leaders of opinions;

7) search advertising in search engines - according to the user's search query;

8) thematic advertising on the display network - advertisements on thematic websites;

9) Remarketing - displaying ads to users who have already visited the company's website or uploaded an application to the company;

10) Return of the "abandoned cart" - personalized promotional messages for users who added, for example, a tour or tickets to the cart, but did not finish the order, with information about these products, possibly giving them a discount after some time;

11) Tracking the emergence of new services and mobile applications that can be useful to customers when traveling.

These recommendations will be useful, first of all, for the heads of Ukrainian tourism companies, and heads of marketing and IT-departments, who make decisions in the field of the implementation of the innovations.

Conclusions

Thus, the article analysed the scientific approaches and actual practical aspects of management of marketing relationships using modern information tools. It was found that insufficient level of

automation and the low degree of use of CRM systems in everyday work of Ukrainian travel companies are the barriers for the personalization of the relationships with the customers, but by now companies have realized the importance of changes of marketing tools. The most of the travel companies (97%) use electronic tools for the customer records and everyday work, but don't apply modern tools like CRM-systems, especially those made by Ukrainian IT-companies (2%). The results of the study suggest the application of an integrated approach to managing personalization of relationships with customers with a multi-choice choice using CRM systems, personalized versions of the site of the company, social networks, banner advertising, etc. If the travel company will come up with an integrated approach to personalize customer relationships and apply in practice all the possible tools and services, then the result will be customer loyalty and a substantial increase in income.

Consequently, Ukrainian travel companies should work on the correct use of modern tools such as CRM systems, contextual advertising, remarketing, inTarget, email distribution, since at the moment only some of them are implemented, and then very superficial. Thus, the company loses opportunities and profits, and most importantly - time. In the conditions of high competition in the tourism industry, companies that will be able to adjust the entire set of tools to the first, will be able to take a larger market share.

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