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Effective development and resilience building: the EU and NATO perspective compared

George-Mihael MANEA *

Abstract

The EU and NATO represent two entities in charge of the protection and self-sufficiency of their communities, being engaged in development activities and resilient-oriented projects at various levels. Despite their different approach on effective development and resilience building, their mission has convergent aspects in order to ensure that the EU development goals impact the self-sufficiency of a household and the NATO agreed baseline requirements improve the level of civil preparedness and protection within the communities. Development and civil protection put the EU and NATO in the middle of the puzzle, providing technical expertise and tailored assistance for the countries in need, as well as to identify and anticipate possible vulnerabilities that might occur in both developing and developed countries. The role played by both the EU and NATO on the world stage come to highlight the importance that the two actors bring in the actual unpredictable environments.

Keywords: resilience, development, community, EU, NATO

Introduction

Development activities contribute to the implementation of various projects and programmes at different levels, and their sustainability leads to resilience building in local communities and international society. The EU gives more than half of the development aid globally in order to achieve specific targets in development, however the EU is not undertaking this huge challenge on its own. It worked together with major international organizations such as the United Nations and the World Bank, as well as NATO within security and civil protection framework. Sustainability goes beyond any divisional project. It is the society vision that provides confidence on building sustainable projects and gives hope that the impossible could become possible on medium and long term.

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The research goal of this paper is to provide a comparative overview between the EU and NATO related to development activities and resilience building, in order to diminish the societal and community vulnerability in times of change and uncertainty. Starting from the central research question “to what extent the EU’s development assistance efforts and NATO’s civil protection instruments contribute to increase the level of resilience in both developing and developed countries?”. Resilience is not a new concept, however there are different approaches and perceptions regarding its definition. In my opinion, it can be defined as the sustainability fulfilment within a particular cross-cutting sector based on specific requirements. The same principle applies for both the EU and NATO, but the implementation measures differ according to the final target established.

In order to answer to the research question of this paper, I identified two hypotheses that will be verified along this research through the qualitative methodology tools: (i) resilience is not a goal, it is rather an ongoing process at the EU’s level (starting with the Millennium Development Goals in 2000) and relatively new at NATO’s level (framed and adopted at the Warsaw Summit in 2016); (ii) effective development can be achieved through the EU’s sustainable projects and NATO’s civil protection means in order to build resilient communities. These hypotheses will be investigated along this paper, and even if the EU and NATO seems to have a different focus in their approach to development and resilience, they have the same objectives for both developing/partner countries and developed/allied states.

It is an important topic as the analysis will provide some missing links in the actual literature. The first part of the paper will focus on the importance of the Millennium Development Goals (MDG) as part of the EU development process in poverty eradication and the transition towards the Sustainable Development Goals (SDG). Water facility and food security are important pillars in reaching the development goals and building resilient communities. The second part of the paper will refer to resilience building in a globalized and confrontational world, where constant adaptation is required in order to overcome vulnerabilities and emerging threats. NATO adopted and adapted the resilience concept based on some agreed baseline requirements in order to complement military defence with civil preparedness and community/society protection.

1. The EU’s role in building resilient communities

The EU foreign policy can be analysed in the post-Lisbon era as “following a one dimensional ‘stop-and-go’ spill over logic” (Cardwell, 2012, p.35), with an integration process situated in a constant flux of centrifugal and centripetal effects (Tekin, 2012) that design more the interest for

national policies rather than a consensus for supranational decision. Although new informal working methods and incremental development on different dimensions such as decision making, funding or even external representation, helped the EU member states to keep a balance between the institutional stability, the coherence level and the flexibility in providing responses and reactions at different levels (Smith, 2004).

Thus, the European Union is described as an “engine of global transformation” (Sjursen, 2012, pp. 4-5) and aims to build well-functioning institutions, in a stronger international society, using all the institutional tools and mechanisms that may reinforce cohesion and coherence of its external action (Blanke and Mangiameli, 2012). The main goal of the EU is to find a common direction for all its institutions and to reinforce the cooperation with counter-parts organizations, as it is the case with NATO.

In terms of project implementation, monitoring and evaluation, as well as support of the development goals, the EU was a substantial promoter of the Millennium Development Goals (2000-2015), while at the same time being the largest donor and supporter of developing countries in achieving the MDGs¹. At the same time, the achievement of the MDG targets was scheduled for 2015 and an effective analysis was required in order to frame new strategies within the Agenda 2030 referring to the Sustainable Development Goals², more complex, comprehensive and global.

Financial assistance is one aspect of the EU’s support, but it is paramount to know what criteria need to be fulfilled in order to reach sustainable development and what cycle to be followed in order to implement these criteria. To the question “What needs to be done?”, the MDGs/SDGs provide an answer based on different targets of action that have been agreed upon by every single country. To the question “How can be done?”, the *2005 Paris Declaration on aid effectiveness* set up the rules and a clear objective: give more money for the development goals and organize them better in order to reach specific targets.

¹ Millennium Development Goals highlighted the importance of eight targets to be achieved by 2015 as follows: MDG 1: Eradicate extreme poverty and hunger; MDG 2: Achieve universal primary education; MDG 3: Promote gender equality and empower women; MDG 4: Reduce child mortality; MDG 5: Improve maternal health; MDG 6: Combat HIV/AIDS malaria and other diseases; MDG 7: Ensure environmental sustainability; MDG 8: Develop global partnership for development, retrieved from <http://www.un.org/millenniumgoals/>.

² Sustainable Development Goals brought into the game a large nuSDG 1: No poverty; SDG 2: Zero hunger; SDG 3: Good health and well-being; SDG 4: Quality education; SDG 5: Gender equality; SDG 6: Clean water and sanitation; SDG 7: Affordable and clean energy; SDG 8: Decent work and economic growth; SDG 9: Industry, innovation and infrastructure; SDG 10: Reduced inequalities; SDG 11: Sustainable cities and communities; SDG 12: Responsible consumption and production; SDG 13: Climate action; SDG 14: Life below water; SDG 15: Life on land; SDG 16: Peace, justice and strong institutions; SDG 17: Partnership for the goals, retrieved from <http://www.un.org/sustainabledevelopment/sustainable-development-goals/>.

1.1. Water Facility

To begin with, “water is a primary human need and water supply and sanitation are basic social services. It is a fundamental economic and environmental resource, and is thus a key issue for poverty reduction, sustainable development and the achievement of the MDG on water” (Resolution of the EU Council, 2002, p.33)

Inequitable distribution of the water, lack of adequate water management and water pollution represents important challenges at the global level. These problems affect developing countries and could conduct to a water crisis on potable water and lack of sanitation, being considered as one of the major causes of disease and death at the global level (European Commission, 2008).

According to the United Nations statistics, “overall, about 1.1 billion people on Earth do not have access to safe drinking water and about 2.4 billion people lack adequate sanitation. An estimated 6000 children die each day from diseases associated with poor sanitation and hygiene” (European Commission, 2003, p.4). For instance, in most ACP countries, demographic growth and climate change can sometimes have a tragic impact on water quality, which is the leading cause of diseases.

Water resource management in developing countries, efficient and equitable use of water, depends on policy planning and programming process, as well as on the capacity to build strategies (European Commission, 2002). Key objectives were developed through different policies such as the *EU Water Initiative*, highlighting the importance of water management, water supply and water security within the Millennium Development Goals framework.

The key objectives of the *EU Water Initiative* refer to the promotion of water governance, water resources management through open dialogue and efficient co-ordination among governments, mechanisms to develop sustainable financing projects for access to potable water, reinforcement of political commitment with emphasis on innovation and sustainability in order to give people the capacities to solve their problems (European Commission, 2003). It is essential to highlight that “water resource management and access to safe water and basic sanitation are crucial for both economic growth and poverty reduction [...] it is important to meet basic water and sanitation needs and contribute to improved water resource management at local, river basin and catchment, national and trans-boundary level” (General Secretariat of the Council, 2011, p.45).

Agriculture seems to be the most water-dependent sector in some developing countries where “irrigation accounts for 80% of water use” (European Commission, 2002, p.4). Moreover, the “mismanagement of water (e.g.: unsustainable irrigation practices) can lead to drought and desertification” (European Commission, 2002, p.4). Industry represents the second most water-

dependent sector and a major polluter in the same time, which requires “cost-effective and ecologically suitable technologies [...] to invest in pollution management systems” (European Commission, 2002, p.20). The energy field underlines the importance of hydropower development as water plays a crucial role in this cross-cutting sector of great importance at global level.

Nowadays the dependence on water is increasing, but “water has become a limited and vulnerable resource which is vital to protect” (European Commission, 2002, p.4). Based on this assumption, water will become “the single most important physical commodity-based asset class, dwarfing oil, copper, agricultural commodities and precious metals” (Buiter, 2014, p.5). The EU’s aid for development focuses on “integrating the management of land and water resources [...] particularly in the areas with competition over water resources, and calls for improved water use efficiency in agriculture which is the largest user of freshwater” (European Commission, 2002, p.10). The importance of integrated management for water resources and water services management is useful for different reasons such as linkage “between upstream and downstream areas within river basins, between water quantity and quality aspects, and between social and environmental aspects” (European Commission, 2002, p.7).

Water does not represent a “commercial product but a heritage which must be protected and defended” (European Commission, 2003, p.2), a key element that could be analysed as well in relation with the other two elements: food insecurity and poverty reduction. However, it should not be forgotten that water represents a sensitive issue at the global level and it is important to realize the right to water request different practical approaches: rights holder (national legislation and policies), international human rights obligations, sustainable development programming.

1.2. Food Security

We will move next to food security, an important chapter in guaranteeing the self-sufficiency of a household, as “food security exists when all people, at all times, have physical, social and economic access to sufficient, safe and nutritious food, which meets their dietary needs and food preferences for an active and healthy life” (FAO, 2013, pp.16-17).

The terms food and security mean not only the unavailability of food, but also the people’s lack of means to gain access to it. Food insecurity is a complex phenomenon which can take different forms depending on the region and context: climatic conditions, rain, communication methods, all of these making different situations across the countries, for which responses must be provided in an appropriate way

In order to avoid food crises and emergencies caused by the collapse of food supplies, food aid can be essential in all its forms: from food delivery to cash transfers. But, in both cases problems might occur because food aid is usually “not only difficult and costly to transport, but often takes long to arrive” (Wiggins and Slater, 2010, p.140). In order to make aid more effective, the EU injects money directly into government’s budgets of recipient countries, on the condition that they demonstrate good governance and respect for human rights. In other situations, aid transfer via foreign NGOs is preferable, especially in conflict zones, where the governments concerned do not provide sufficient guarantees that the donations will be correctly used.

The EU food aid can be offered as well through “increased investments in agricultural assets, including farm implements and livestock” (FAO, 2013, p.10), and trainings in order to ensure the development of local production (e.g.: management of stock cereals, diversification of cultivations, regeneration of the grazing land in order to protect animals). Progressing in “meeting the food needs, good-quality cropland and renewable water resources” (FAO, 2013, p.12), spell out development for the local population. Moreover, in order to achieve goals and have an impact on the ground, there is a need for “greater participation of civil society and farmers’ organizations [...] in policy making, implementation and evaluation” (General Secretariat of the Council, 2011, p.111).

At this point, four dimensions of food security should be questioned in order to guarantee the self-sufficiency of a household: food availability, access to food, food utilization and food vulnerability.

Food availability is necessary when “supplying enough food to a given population is a [...] condition to ensure that people have adequate access to food” (FAO, 2013, p.18). Moreover “over the last two decades, food supplies have grown faster than the population in developing countries, resulting in food availability per person” (FAO, 2013, p.18). The food availability can result “not only from agriculture, but also from fisheries, aquaculture and forest products” (FAO, 2013, p.18), and according to the statistics “between 15 and 20% of all animal protein consumed is derived from aquatic animals, which are highly nutritious and serve as a valuable supplement to diets lacking essential vitamins and minerals” (FAO, 2013, p.18).

Access to food is based on economic and physical factors, as well as on the sustainability of the food policy. On the one hand, economic access is “determined by disposable income, food prices and the provision of and access to social support” (FAO, 2013, p.20) and investment in this factor could have positive consequences on the reduction of poverty rates. On the other hand, physical access is “determined by the availability and quality of infrastructure, including ports, roads, railways, communication and food storage facilities and other installations that facilitate the functioning of

markets” (FAO, 2013, p.20). However, food policy failure (e.g.: sheer mismanagement) can have consequences on people’s access to food.

Usually, “progress in terms of food access and availability is not always accompanied by progress in food utilization” (FAO, 2013, p.21). This dimension of food security reflects “the food quality and preparations, health and hygiene conditions, determining how effectively available food can be utilized” (FAO, 2013, p.21). The challenges and obstacles should not be underestimated as financing land development, managing thousands of farmers, selling produce outside the region, maintaining the irrigation network could benefit from the help of the European Union.

To better understand the importance of water and food in the context of sustainable development and resilience building, it is required to observe the local needs, to propose a transformation process tailored to the community needs, to focus more on training and giving them the necessary skills in order to fight against poverty. The EU has the competence, the tools and the framework in order to get local communities out of poverty, however some elements should be taken into consideration in order to bring added value to the already existing activities, as follows:

- - to draft policies and strategies that can impact on the ground;
- - to work in coordination with local authorities, civil society, private sector and other donors (either international organizations and/or foreign NGOs);
- - to synchronize the development objectives timeline and to align the standards required from the donors’ side in order to avoid duplication;
- - to exchange information as “the connections of people, through formal and informal channels, diaspora communities, virtual global networks and professional communities of shared interests are important drivers of international collaboration” (The Royal Society, 2011, p.63).

In this way, water facility and food security, together with “internet connections, logistic hubs, and river valleys [represent] sources for energy and water increasingly functions as regional catalyst” (Telò, 2014, p.276).

1.3. Fighting Poverty

To further assess the fight against poverty, in an attempt to reduce the gap between rich countries and more fragile countries, Europe is progressively stepping up its aid towards all developing nations. International co-operation is on the way with one clear goal: to promote a fairer world where solidarity prevails and to adopt policies that are universally beneficial and respectful to everyone: human rights, transparent decision making, institutions set-up. However, “geography is not

destiny, but geography strongly influences the ways economies can and do develop. Geography encourages exchange and human interaction. It also creates barriers and nourishes disputes and conflicts” (World Bank, 2013, p.7).

The “geography of poverty” (Sumner and Lawo, 2013, p.2) mirrors a multi-dimensional level of poverty that could be measured either from the point of view of living standards or from an income perspective³. Making a poverty comparison between the two categories is difficult in the absence of a common unit of measurement, but poverty can be measured independently within each category as such.

The standard of living is underlined through indicators of quality of life including “life expectancy at birth, the mortality rate of children, and enrolment rates in school” (World Bank, 2013, p.15). Low incomes represent “both a cause and effect of low level of health, education, and other human development outcomes” (World Bank, 2013, p.15). These two categories make a clear distinction on how poverty is divided: “poor people have a hard time obtaining good health care and education, while poor health and poor education leave them less able to improve their incomes” (World Bank, 2013, p.15).

Moving people out of poverty or “poverty mobility” (Sumner and Lawo, 2013, p.7) could be possible in the context of evolution and progress in terms of water resources management (irrigation systems, pollution management systems, building dams for hydropower development) and food security dimensions (food supply, adequate infrastructure for access, provisions, cereals stock learning management). Moreover, poverty is also linked to climate change that affects “all countries, but will be most immediately and severely felt in the poorest and most vulnerable countries, which do not have the means and resources to adapt to the changes in their natural environment” (General Secretariat of the Council, 2011, p.40).

In this way, it is paramount to link poverty reduction with the enforcement capacity and strategy building that will improve state-business relations in order to achieve development assistance and deliver agricultural and industrial progress (Wilkinson and Hulme, 2013). The biggest problem seems to be represented by fragile states, where the poverty rate in both low-income economies and middle-income economies reaches a total of 398.9 millions of people (Appendix II, table no.2). In this situation, attention should be focused on countries that may be “declared as poverty-free or making

³ Low-income economies (LICs) and middle-income economies (MICs) are defined in appendix no.1. The international poverty lines, such as \$1.25 and \$2 a day, mirrors the proportion of global poverty in LICs, MICs, least developed countries according to the appendix no.2, table no.1.

progress in meeting the MDGs target, when in fact many of their citizens may be mired in poverty along multiple decisions” (Wilkinson and Hulme, 2013).

*

* *

Water facility represented a strong pillar in achieving one of the MDGs taking into account that a large number of people lack access to safe drinking water. Furthermore, food security was considered a priority in fighting poverty. This is an existential challenge not only for the EU, but for the entire world, and more efforts are required from the developed countries in order to reach substantial progress in poverty eradication, such as more development aid, better policy coherence on development, more effectiveness; but also by the developing countries themselves: more ownership and more focus on the development goals.

The indicators underline that poverty eradication and water facility are on track with respectively 80% and 88% of the distance towards the goal already achieved. Food security in the form of undernourishment is still off track but has been slowly improving since 1990 (Appendix II, table no.3). Climate change affects “world food security and the livelihoods of smallholder farmers [...] food security is a major challenge since climate change is already affecting farmers across the world. Building more climate-resilient farming systems is key to climate smart agriculture” (Garrity, 2014, p.12).

The development agenda post 2015 leads to universal principles for both developing and developed countries, as well as sustainable goals and targeted impact. Water access is strongly linked to infrastructure development, but also to land rights which are not fully regulated in Africa; food security has to focus on food production, nutrition and hygiene, as well as to keep food prices at a low and stable level; while poverty should take into account social services and employment opportunities (Bergh and Couturier, 2013). Moreover, agro-forestry should be taken into account for further development “as it has too often been considered a type of forestry and the agricultural community has tended to ignore the potential of trees when grown in association with crops. But when grown among crops and properly managed, trees provide a source of biofertilisers, reduce temperatures, conserve rainwater in the soil, and produce abundant wood for cooking fuel and construction and nutritious fodder for livestock” (Garrity, 2014, p.12).

2. The NATO's role in resilience building through civil protection

In the actual unpredictable environments, while the EU works on its global strategy for development and security, NATO decided to develop the resilience concept and to build resilient communities at the level of Allied and partner countries. Thus, “in a globalized but also more confrontational and complex world, resilience will remain an ongoing concern for Allies, requiring constant adaptation as new vulnerabilities and threats emerge” (NATO Review, 2016). The new targets envisaged through the resilience concept refer to virtual vulnerabilities, civil preparedness, hybrid threats, civil-military readiness, stepping up cooperation with the EU and working with partner countries.

a) *virtual vulnerabilities*: NATO's toolbox related to cyber issues necessitates not only political consultation processes, but also inter-institutional links. Thus, it is important to highlight that “cyber space is perhaps the most extreme form of this vulnerability as it interconnects the entire planet in real time, making it possible for anybody to attack any electronically operated target from anywhere at any moment” (NATO Review, 2016).

Cyber crime, cyber espionage and cyber warfare are part of cyber security as “a collection of tools, policies, security concepts, security safeguards, guidelines, risk management approaches, actions, training, best practices, assurance and technologies that can be used to protect the cyber environment and organization and user's assets [...] Cybersecurity strives to ensure the attainment and maintenance of the security properties of the organization and user's assets against relevant security risks in the cyber environment. The general security objectives comprise the following: availability; integrity, which may include authenticity and non-repudiation; and confidentiality” (Klimburg, 2012, p.12).

b) *civil preparedness*: it links to the “national responsibility, in the same way that Allies must ensure adequate cyber defence for their critical information technology networks, especially the ones that NATO depends on for its own operations [such as] assured continuity of government and critical government services, resilient energy supplies, ability to deal effectively with the uncontrolled movement of people, resilient food and water resources, ability to deal with mass casualties, resilient communications systems and resilient transport systems” (NATO Review, 2016).

The concept of resilience within the civil preparedness was highlighted during the NATO Warsaw Summit Communiqué as follows:

“we have taken a range of steps to reinforce our collective defence, enhance our capabilities, and strengthen our resilience” (Warsaw Summit Communiqué, para 4, 2016) and, “civil preparedness is a central pillar of Allies’ resilience and a critical enabler for Alliance collective defence. While this remains a national responsibility, NATO can support Allies in assessing and, upon request, enhancing their civil preparedness. We will improve civil preparedness by achieving the NATO Baseline Requirements for National Resilience, which focus on continuity of government, continuity of essential services, security of critical civilian infrastructure, and support to military forces with civilian means” (Warsaw Summit Communiqué, para 73, 2016).

c) *hybrid threats*: NATO is improving “its intelligence-sharing and early warning processes in order to better anticipate and map hybrid warfare activities” (NATO Review, 2016). Today, NATO faces new challenges that require contemporary approaches for defence from new threats and the need to support international peace and security. Thus, as asymmetric and unconventional warfare become more and more prevalent every day, NATO needs to identify the enemy clearly and be ready to answer the question: *How do we act in case, we are attacked?*. However, for resolving even this sole issue, NATO needs not only the military forces of the Allies, but also close collaboration with other countries.

d) *civil-military readiness*: NATO transformed itself and adapted to the new international architecture in order to respond to the new indirect and multi-directional threats, including adequate infrastructure such as “transport, flight corridors, civil-military airspace coordination, fuel stocks, pre-positioned equipment, port access and legal agreements are fully integrated into military planning” (NATO Review, 2016). Moreover, NATO has either played a direct role in political and social stabilization of volatile populations, or an indirect role in contribution of logistical support and assistance to other existing institutions managing the conflict.

e) *Stepping up cooperation with the EU*: in order to be successful in their operations, NATO and EU need to support each other on issues of common interests and have largely done so through initiatives such as *Smart Defence* as well as *Pooling and Sharing*. Otherwise, it will lead to the duplication of operations and missions, which is inefficient for both NATO and EU members. This is why complementarity is welcomed between the *NATO Smart Defence* concept and the *EU Pooling and Sharing* initiative, both of them being crucial in framing new coordinated actions, as well as to act

together coherently, effectively and efficiently in order to achieve tactical, operational and strategic objectives.

f) *Working with partner countries*: global partnerships are wide and diverse; however, some countries can play a specific and targeted role along a win-win partnership with effects resulting in development, security and joint operations. Furthermore, NATO's partners can help "to improve the Alliance's overall resilience [...] their experiences and lessons learned can help NATO to better understand the type and impact of hybrid tactics" (NATO Review, 2016).

2.1. The NATO's agreed seven baseline requirements for resilient communities

In order to better understand the NATO's contribution in building resilient communities, both for Allied and partner countries, we will move next to the agreed baseline requirements referring to the: (i) assured continuity of government and critical government services, (ii) resilient energy supplies, (iii) ability to deal effectively with uncontrolled movement of people, (iv) resilient food and water resources, (v) ability to deal with mass casualties, (vi) resilient civil communications systems, and (vii) resilient civil transportation systems (Appendix III). As it can be seen, food and energy are again part of the main requirements to proof sustainable development and resilience building with different communities at the global level.

If the EU is focused on the development activities related to the implementation of various projects and programmes in crucial cross-cutting sectors in order to develop local communities, NATO is trying to ensure at its turn the self-sufficiency of a community in order to become resilient through the continuation of the services, energy supplies, food and water resources, communication means and transportation systems. The cooperation between public administration authorities, public institutions and international organizations is crucial in order to increase the level of resilience and to ensure the right measures for the protection of local communities.

From this point of view, it is important to ensure the transfer of authority, the continuity of communications, assessment and training in order to provide the necessary skills to local communities. It is required to ensure the continuity of political and administrative command of the developing/partner country, especially by removing the population from the affected area in other locations/areas with optimal security conditions, while ensuring the necessary conditions for local and central authorities to carry out their activities.

On the same note, food and water should be sufficient in order to feed the civilian population. As this is a critical resource, identification and protection of the critical infrastructure is paramount, as well as to create stocks, to ensure their physical protection and to make sure there are means of transportation for rapid deployment. It is also important to provide a minimum volume of water reserves in major reservoirs, stocks of coal of relevant producers of heat produced on coal and reserves of crude oil for those plants that are able to run on this fuel. At the same time, it is required to provide the additional balancing energy reserve for some groups that can switch from running on natural gas to the crude oil in order to keep them in operation in case of shortage in the gas network. Having communication facilities and information technology, this can lead to integrated systems able to minimize the risks and vulnerabilities at the level of local communities.

Conclusion

The EU and NATO are both engaged in reaching a high level of resilience in local communities, not only in developing and/or partner countries, but also at the level of their member states. Lessons were learnt from mistakes made in the past and both the EU and NATO are now focusing more on the objective of giving people the capacities to solve their own problems, as well as to encourage the self-sufficiency of populations and also their security through civil preparedness and protection.

The hypotheses identified at the beginning of this paper come to answer to the central research question “to what extent the EU’s development assistance efforts and NATO’s civil protection instruments contribute to increase the level of resilience in both developing and developed countries?”. Both hypotheses were validated in the sense that the EU made the transition from the MDGs to the SDGs, meaning a change of approach in terms of development: a swift from funds injection to training and know-how through projects and programmes targeted to the local needs of the community; while NATO started to balance the military importance with civil preparedness in order to make communities more resilient and prepared in front of various risks and vulnerabilities. In this way, both organizations contribute decisively to reach different goals and targets in development, resilience being a process that can be adapted according to the changes that might occur in our unpredictable environments where we live.

Water facility, food insecurity and poverty eradication will continue to represent a priority and new development assistance programmes will be required. In order to make a significant difference, the EU needs to focus more on the so-called policy coherence for development, because aid is not enough and the populations need also training. On the other side, at the NATO level, risks and

vulnerabilities reduction are thus an expression of moral and social responsibility at all management levels and it can be accomplished through public determination, resilience awareness and increased cooperation between the EU and NATO.

To conclude, the EU development efforts and NATO civil preparedness contribute to the effective development and resilience building at the global level. Both actors have the potential to bring their expertise, skills and capacities in order to provide technical assistance and risks management training to local communities from both developing and developed countries (in the EU's case), as well as member and partner states (in the NATO's case).

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Appendix I

Definitions

- **Food access** – “refers to the ability to obtain an appropriate and nutritious diet and is in particular linked to resources at the household level” (Shabd *et al.*, 2007, p.65);
- **Food availability** – “refers to the physical presence of food at various levels from household to national level, be it from own production or through markets” (Shabd *et al.*, 2007, p.62);
- **Food utilization** – “concerns here include the way in which food is distributed within the household between individual members, the preparation of food, and the health of those eating” (Wiggins and Slater, 2010, p.133);
- **International poverty lines** – “lines such as \$1.25 and \$2 a day” (Sumner and Lawo, 2013, p.5)
- **Low-income economies** – “those with a gross national income (GNI) per capita of \$1.025 or less in 2011” (World Bank, 2013, p.139);
- **Middle-income economies** – “those with a gross national income (GNI) per capita of \$1.026 or more but less than \$12.476 in 2011” (World Bank, 2013, p.139);
- **Poverty** – “defined not simply by the absence of income and financial resources, but also as encompassing the notion of vulnerability and such factors as access to adequate food supplies, education and health, natural resources and drinking water, land, employment and credit, information and political involvement, services and infrastructure” (European Commission, 2002, p.9);
- **Water management** – “cross-sectoral issue to be mainstreamed within development policies associated with poverty reduction” (European Commission, 2002, p.9);
- **Water source, access to an improved** – “the share of the population with reasonable access to an adequate amount of water from an improved source, such as a household connection, public standpipe, borehole, protected well or spring, or rainwater collection. Unimproved sources include vendors, tanker trucks, and unprotected wells and springs. Reasonable access is defined as the availability of at least 20 liters a person per day from a source within one kilometer of the dwelling” (World Bank, 2013, p.141).

Appendix II

Table 1. Proportion of global poverty, and poverty incidence in LICs and LDCs, \$1.25 and \$2, 2008

	\$1,25 poverty line			\$2 poverty line		
	Millions of people	% world's poor	% poverty incidence	Millions of people	% world's poor	% poverty incidence
Low Income Countries	316.7	25.7	48.5	486.3	20.6	74.4
Middle-income countries	917.1	74.3	19.5	1,871.1	79.4	39.7
LMICs	711.6	57.7	30.2	1,394.5	59.2	59.1
UMICs	205.5	16.7	8.7	476.6	20.2	20.3
China and India	599.0	48.6	24.3	1,219.5	51.7	53.8
Least Developed Countries	317.8	25.8	46.1	497.2	21.1	72.1
Total world poverty	1,233.8	100.0	22.8	2,357.2	100.0	43.6

Source: Sumner and Lawo, 2013, p.12

Table 2. Distribution of world poverty by low and middle income and fragile States combinations, 2008

	LICs	MICs	Totals
% world poverty	18.4	13.9	32.3
Fragile States	7.3	60.4	67.7
Non-Fragile States	25.7	74.3	100.0
Poor (millions)	226.8	172.1	398.9
Fragile States	89.9	745.0	834.9
Non-Fragile States	316.7	917.1	1,233.8

Source: Sumner and Lawo, 2013, p.13

Table 3. Global MDGs in Progress

MDG	Improvement since 1990	Distance progressed to Goal (100% = Goal attained)	On track?	Faster Progress 2003-2008 compared to 1990-2001/2
Poverty	Y	80	Y	Y
Undernourishment	Y	77	N	N
Drinking water	Y	88	Y	N

Source: Sumner and Lawo, 2013, p.6

Appendix III

Agreed baseline requirements

- 1. Continuity of Government** – maintaining at all times the ability to make decisions, communicate them, and enforce them, and to provide essential government services to the population.
- 2. Resilient Energy Supplies** – ensuring that energy supply, including national power grids, are secure and that nations maintain the necessary prioritization arrangements and redundancy.
- 3. Resilient Civil Communications Services** – ensuring that telecommunications and cyber networks remain functional even in demanding conditions and under attacks.
- 4. Resilient Food and Water Supply** – ensuring sufficient supplies are available to both civilians and the military, and safe from disruption of sabotage.
- 5. Ability to Deal with Large Scale Population Movements** – to be able to de-conflict such movements from potential national or Alliance military deployments and other requirements.
- 6. Ability to Deal with Mass Casualties** – ensuring that health systems can cope even in very demanding situations when there might be simultaneous pressure on civilian and military health care capabilities.
- 7. Resilient Civilian Transportation Systems** – ensuring that NATO forces can move across Alliance territory rapidly and that civilian transportation networks remain functional and effective to support civil and military requirements even when challenged or attacked.

Source: Meyer-Minnemann, Center for Transatlantic Relations website

Current challenges of the European security caused by the refugee crisis. The EU's fight against terrorism

Andreea Florentina NICOLESCU*

Abstract

The primary objective of this research is to identify the evolution of the terrorist attacks that appeared in Europe lately. In the article are mentioned the main causes that led to the terrorist attacks from France and Germany, emphasizing their effects over the 2 countries. The article brings forward the main types of attacks used by terrorists but also the number of injured persons or deaths. An essential aspect that was highlighted in the article refers to the results obtained after applying the EU – Turkey Statement but also to those regarding the transfer and relocation of the migrants in different countries. In this way, the analysis implied the selection of EU member states which received Syrian refugees by relocation together with the highlighting of the numeric situation of the persons returned from Greece to Turkey. A last part of this study assumes the identification of the personal categories who have been brought by Frontex and EASO in Greece in order to handle efficiently the crisis, which provide the expertise in the migration field. The primary question of this research is: “Is EU capable to administer the changes regarding migration, assuring in the same time its safety?”. To answer this question, I identified first the costs of EU securitizing its states. I consider that the approach of this matter has a high importance since it shows the necessity of some changes meant to help European states to face the events linked to migration and, implicitly, security from the last years.

Keywords: refugee crisis, terrorism, security challenges, migration

Introduction

The importance of studying this subject is given by the challenges faced by EU member states in protecting themselves from the adverse effects of the refugee crisis, in particular from the terrorist attacks which have took place in different European countries.

Refugees crisis is a nowadays subject which brings forward a situation of no previous similarity in Europe, this is why the biggest question of the actual research is: “Is EU capable to administer the changes regarding migration, assuring in the same time its safety?”.

The methodology that has been used during the inquiry in a complex one, in this way, we used the analysis of the documents provided by EU institution, statistical analysis and the method of comparison. A detailed description of the methodological tools used it is elaborated in the following.

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Rappaport (2016) mentions in “The refugee crisis is being blamed for the terrorist attacks in Europe” that it is difficult to determine the degree in which the refugees crisis led to increasing terrorism in EU but it is clear that after receiving more than 1 million refugees in Europe in 2015, there was a raise in the number of deaths and injured persons as a result of jihadist terrorist attacks.

Ceu Pinto Arena (2017) claims in “Islamic Terrorism in the West and International Migrations: The “Far” or “Near” Enemy Within? What is the Evidence” that terrorism is strongly linked with international migration. The article mentions that the hypothesis in which among the refugees could be hiding ISIS attackers has been confirmed, one of the cases taking place in Germany in December 2016 when a requester of political asylum drove a truck through the Christmas market, attack that provoked deaths and injuries for some of the people present there.

Funk and Parkes (2016) state in “Refugees versus terrorists” that through refugees are also persons that will act violent in Europe for reasons that are not related to terrorism. These are young persons that run from war, don’t have faith in the host states and have to face a new culture, different from theirs.

Di Natala (2015) draws attention in his study “Migrant crisis triggers fears over increase of terrorism threat in Western Europe” about the possibility that in the future, some refugees could adhere to radical Islamism as a reply to the failure of social and cultural integration in the host countries as well as the lack of economic opportunities they experimented. Considering the big number of refugees that arrived in Europe and the number of illegal entries identified by Frontex, the presence of terrorists between refugees cannot be excluded. However, the biggest threat brought to the safety of societies who received refugees is the high risk that these will face regarding social disorders on a large scale.

This article is structured on several parts, in the first part of it we can find some progress made by the European states regarding the implementation of the European Agenda on Migration (European Commission, 2017). Also in the first part of the research I identified the main threats to the European borders, as well as the evolution of the attacks at the European level in the last period.

The second part of the article highlights the results of the EU-Turkey Statement, highlighting the progress made in resettlement and transfer in the countries that received most of the international protection applicants. Also, in order to understand the importance of this agreement and of the border security, I have identified the categories of staff from Frontex and from the European Asylum Support Office that are involved in managing this humanitarian crisis.

The third part of the research is marked by the determination of the costs granted by the European Union states in terms of their security, taking into account the intensification of the terrorist

attacks as the refugee crisis started. Considering the importance of European border security, the third part of this article also contains a presentation of how the new European Border and Coast Guard Agency is being implemented.

1. The methodological approach of the research

In order to realize this study, I have used various research methods to complete a comprehensive study on the safety of EU member states in the context of the refugee crisis.

Thus, the main method of research used in this article was to analyse the official documents of the European Union institutions that have expertise in the field, such as the communication reports provided by the European Commission, the European Asylum Support Office, the European Council, the Council of the European Union and the European Parliament.

The second research method used to materialize this article was the statistical analysis that was conducted using the databases of the think tank The Religion of Peace (TROP) to carry out the analysis of the latest terrorist attacks and of their devastating effects on the European countries security. The statistical analysis was also conducted using data from the Global Terrorism Database to identify the frequency of the attacks in France and Germany between 2010 and 2015, as well as the most common methods of attacks used by terrorists and the number of victims of these attacks that have died or been injured during the assaults.

Another method of research used was that of comparison, which was used to identify the progress made in implementing the EU-Turkey Statement as well as on the costs incurred by the European Union for a better management of the migration in 2017 compared to 2016 and 2015. This method has also been used to carry out the statistical analyses where I have focused on identifying existing developments in the analysed periods.

2. Progress and steps to be taken in the field of security based on the Migration Agenda

Within the Migration Agenda that was realised in 2015, several pillars of the European migration policy have been established. One of these pillars concerns the protection of the EU's external borders, and how Union is trying to solve the existing problems for a better migration management. Protecting the external borders is necessary for an optimal functioning of the Schengen area.

At the beginning of 2017, more precisely between February 8 and 9, several decisions were initiated at the meeting of the European Border and Coast Guard Agency's Management Board. At this meeting a joint plenary session was held with the Management Board of the European Asylum Support Office where the two agencies had a role to play in collecting data and implementing hotspots. The two agencies signed a cooperation plan for 2017 and 2018, which is based on their common activities (European Commission, 2017).

Moreover, there are six priority areas identified and endorsed by the European Union Member States Council of Justice and Home Affairs in April 2016.

1. Strengthen the rapid response capability of the European Border and Coast Guard Agency and, moreover, share resources.

In this respect, for the sharing of resources EU member states have mentioned that they have more than 1.500 border guards, as well as other officers within the Rapid Reaction Pool. Unfortunately, only 14 states have confirmed their presence in this group, among which we can find: Austria, Germany, Romania, Poland, Bulgaria, and Slovenia. There are also shortcomings in equipment such as patrol and coastal vessels as well as helicopters.

2. Performing preventive vulnerability assessments based on a common methodology.

The main objective of vulnerability assessments is to identify possible consequences for external borders as well as long-term consequences on the functioning of the Schengen area. In this case, a series of simulation exercises will be carried out by the end of October 2017. It is also necessary to make recommendations that need to be considered in relation to the future challenges that may appear at the external borders.

3. Providing the right support for the return of migrants to their home countries.

Between January 12 and February 27, 2017, the European Border and Coast Guard Agency had a rising rate of return operations to third-country nationals, reaching 44 return operations, summing up by the end of February 2017 a total of 2,166 returned people. Since the beginning of 2017 there have been three return groups for operations, namely: forced return, forced return escorts and return specialists. In this case, starting in February 2017, there were 25 EU member states involved in training these groups, thus providing 518 experts out of the 690 needed. The experts' gap results from the non-involvement of four states, namely Cyprus, Sweden, Switzerland and Liechtenstein. One issue that should not be neglected in the future is the clarification of the practical modalities and rules on the detachment of the experts that constitute the working groups, their tasks and responsibilities. The member states of the European Union should provide monthly information on the planning of national return operations as well as the number of returnees.

4. Creating the reclamation mechanism of the European Border and Coast Guard Agency.

As regards the changes that should be made to the European Border and Coast Guard Agency regarding the reclamation mechanism, a first step is to improve the information dissemination, the availability of materials in paper support and also a visibility of the objection forms on the Agency's website.

5. Opening up better operational cooperation with third countries by establishing a model status agreement.

Concerning this issue it was agreed in February 2017 to start the negotiations for an agreement with Niger. In January 2017 the European Commission made recommendations to the Council to start negotiations with Macedonia and Serbia, with the main goal of negotiating the state agreements with the ultimate goal of building teams at the European borders and on the coast within these states.

6. Headquarters agreement.

Regarding this priority area the progress has been made by the fact that Poland has reached an agreement with the European Border and Coast Guard Agency as regards the headquarters of the Polish Agency, an agreement setting up its staff, the immunities of the staff, the legal status of the agency, the privileges and the exemptions granted to it. In this respect, the provisions regarding the new building where the Agency of Poland is located are mentioned in the agreement.

3. The recent evolution of the attacks at the European level. The case of France and Germany between 2010 and 2015

The reason for choosing these two countries to perform the study is represented by the numerous terrorist attacks from both of them, attacks that implied deaths or injuries. The necessity to make this analysis is given by the need to identify the negative effects of terrorism in the countries which received refugees, the two states leading the rankings the number of people they accepted, according to Eurostat statistics.

The first analysed year was 2010 since it was the first one which registered numerous attacks on the territory of those 2 countries previously mentioned, attacks that had repercussions on their population. Prior to this, the attacks were fewer; one example could be Germany in 2009, when there were only three terrorist attacks that did not result in wounded or deceased people, according to data provided by Global Terrorism Database. This is why 2010 is the first year of study for the analysis.

It is necessary to mention that the second part of the analysis of the cases of the two countries is carried out between 2010 and 2015. The reason I chose this period is that the analysed period

represents the time before the refugee crisis started, which gives us an overview of the situation prior to the crisis. One of the impediments to an analysis that includes a period that includes the onset and duration of the humanitarian crisis is that there are no data available after 2015.

The first part of this analysis is aimed at identify the recent terrorist attacks that have taken place in the European states since the onset of the refugee crisis and in the second part of this chapter we will find an analysis focused on the case of France and Germany on the types of attacks which took place in their territory, highlighting the adverse effects of terrorism through an analysis of deceased or injured persons.

3.1. Recent attacks in Europe and their effects on the safety of the European population

As in the second part of this analysis I chose to present the main terrorist attacks that took place in France and Germany between 2010 and 2015 due to the lack of updating of the database used, I decided that it is very important to analyse the recent attacks that have taken place in Europe. Therefore, this subchapter summarizes the main attacks that took place in 2016 and in the beginning of 2017 and the adverse effects caused by them. Therefore, the choice of analysing the years mentioned above has been made to highlight the attacks that happened after accepting the refugees, mentioning the circumstances in which they took place. Moreover, it must be taken into account the fact that there have been many terrorist attacks during these years in France and Germany. In 2016 in Belgium there were two terrorist attacks in the same day and from the first attack have resulted 14 deceased people and 92 injured. The suicide attack was carried out by two people in Brussels at Zaventem International Airport when two people diverted their explosive belts.

The second attack that took place the same day in Brussels was carried out at the Maelbeek subway station by a person belonging to the Islamic State, which resulted in 21 deaths and 130 injured people.

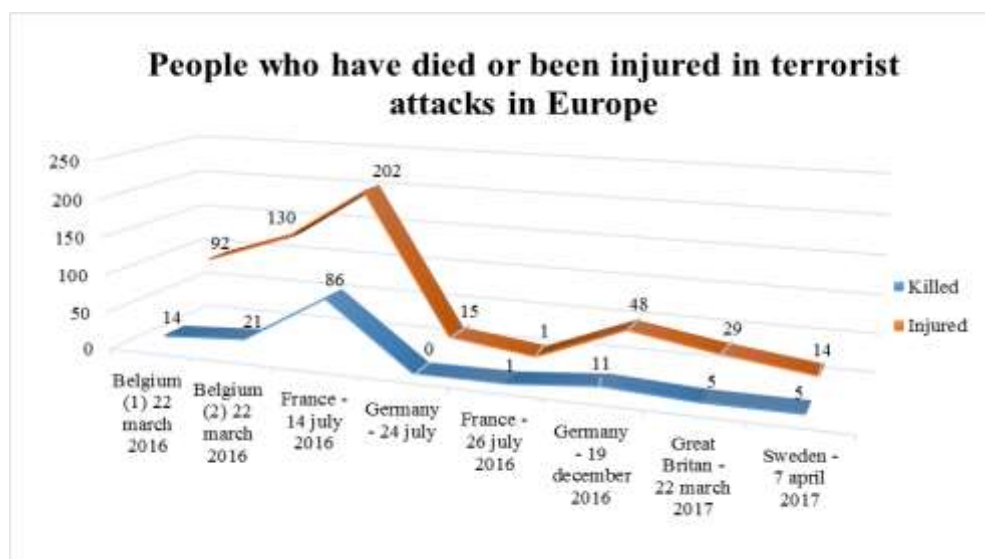
The biggest attack in 2016 was in France at Nice, when a person with Tunisian origins entered with a truck in a crowd that was celebrating France's National Day. As a result of this attack, 86 people died and 202 people were injured, which classifies the attack as the most bloody terrorist attack in 2016. After identifying the attacker, he was shot by the authorities, and after the shooting, he died.

Another attack took place in July 2016 in Ansbach, Germany. After the attack, there were no deceased people, but 15 people needed medical care after a Syrian asylum seeker detonated a bomb at an outdoor music festival.

Less than two weeks after the Nice attack in France, another attack took place, this time in Saint-Etienne-du-Rouvray when some Muslim radicals killed the catholic priest. Also those who were assisting were taken hostage and one of them was injured by the attackers.

Just with a few days before Christmas 2016 there was an attack in Germany, in Berlin, when a truck entered in the crowd of people who were present at the fair organized with the occasion of the Christmas celebration. After the attack, 11 people died and 48 people were injured. The panic attack among European states increased the protection measures at the Christmas fairs. The attacker was an asylum seeker whose asylum application had been rejected, that fact led to a feeling of reluctance on the part of the population towards refugees, especially those who disagree with receiving refugees on German territory.

Figure 1. People who have died or been injured in the latest terrorist attacks in Europe



Source: own representation using The Religion of Peace (TROP) database

The second attack that took place in 2017 was the one in Sweden, which took place in Stockholm in April. Following the attack, 5 people died and 14 other citizens were injured after a truck was stolen by a terrorist who entered with it in a commercial street wounding the people who were in the area.

It has to be specified that this analysis of the main terrorist attacks from France and Germany in 2016-2017 are attacks that have been claimed by terrorist groups where the attackers were members.

These events were mentioned in the study because with the set of groups of refugees that entered in Europe, the number of attacks in European states increased, those being claimed by terrorist groups.

3.2. The reasons behind the terrorist attacks in France and Germany

This research has the purpose to identify some of the possible main reasons which caused the terrorist attacks which took place in France and Germany, the necessity of including this part in the inquiry being the one of understanding what led to the attacks over the two European countries.

The analysis of the terrorist phenomenon in France and Germany is due to the high frequency of the terrorist attacks registered in the two states between 2010 and 2015 and beyond.

The main reasons for these attacks predominantly occurring in the two countries mentioned above are the following:

- Launching fear among the citizens of the two states, showing the power to create panic and tension.
- The recruitment of new followers even more that in France live the largest Muslim community in the European Union. Thus, by committing these attacks, terrorists aim to provoke tensions between the French and the Muslims, thereby increasing racism and destabilizing the state.
- The statements made by French officials highlighting the fight against Islam in France, as well as France's participation in Syrian air strikes on the Islamic State, which led to their revenge on France.
- Adopting a ridiculing attitude of Muslim religion and the freedom of expression led by the employees from Charlie Hebdo to the extremists has prompted an attack by the group named Al Qaeda in Yemen on the satirical magazine. The reason of the attack was the caricature of the Prophet Mohammed since 2011, which culminated in 2015 with the attack by several members of the terrorist group of the headquarters of the magazine with the intention of killing Stéphane Charbonnier, the director of the editorial.
- Having an attitude of acceptance towards refugees, Germany has attracted them on its territory, including ISIS terrorist group adherents who took advantage of their refugee status and planned to attack. An example of this case is the attack of a young afghan from the train that was circulate in southern Germany.

3.3. The terrorist attacks in France and their adverse effects on the safety of French citizens

In 2010 – 2015 there were 143 terrorist attacks on the territory of France and the most common way of attacks were bombings. Thus, besides the main ways of attacks used by terrorists in France

that we can see in Figure 2, we can mention a Hostage Taking (Barricade Incident) and an Unarmed Assault.

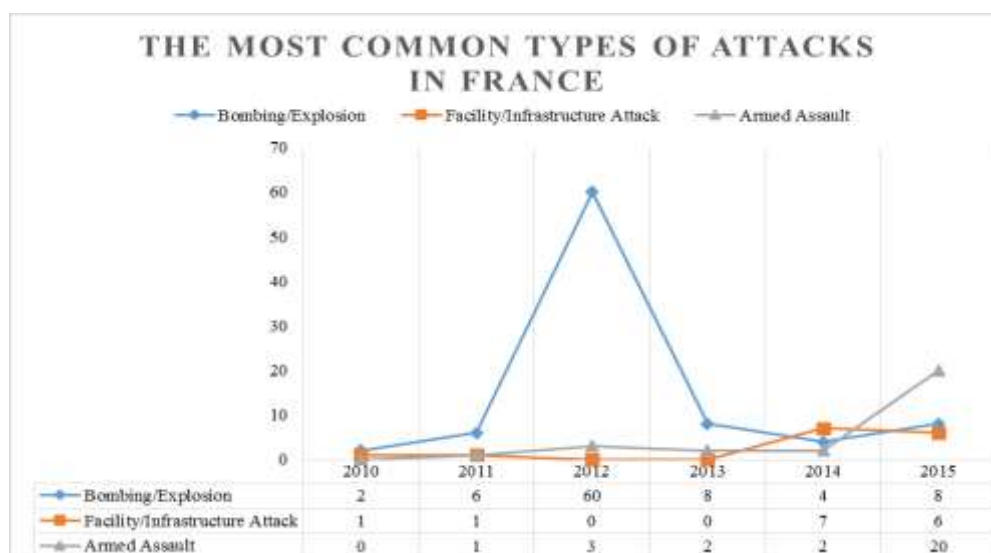
As a result of the attacks we can see in the Figure 2 there were cases of death and injured people in times of violent attacks.

In March 2012, the Islamic Algerian group Jund al Khilafah, which means Caliphate Soldiers of Algeria, caused the death of four people following the armed attack at a Jewish Educational Institution in Toulouse that is located in France. In the same month of 2012, individuals belonging to the same terrorist group attacked four Toulouse and Montauban soldiers using the same technique, following the attack the soldiers died.

Fortunately, following the 60 bomb attacks of 2012 caused by bombs/explosions, they did not cause any loss of human life.

In December 2014 another attack took place in France in Dijon, where 11 people were injured by a non-affiliated person of any terrorist group that injured people on pedestrian crossings. The attacks realized by the terrorist who acted individually in several areas of the French city, which had the same tactics, were followed by the exclamation "Allahu Akbar" which means "Allah is great" classifying this attack as being caused by religious fanaticism.

Figure 2. The most common types of attack used in the assaults in France in 2010 – 2015



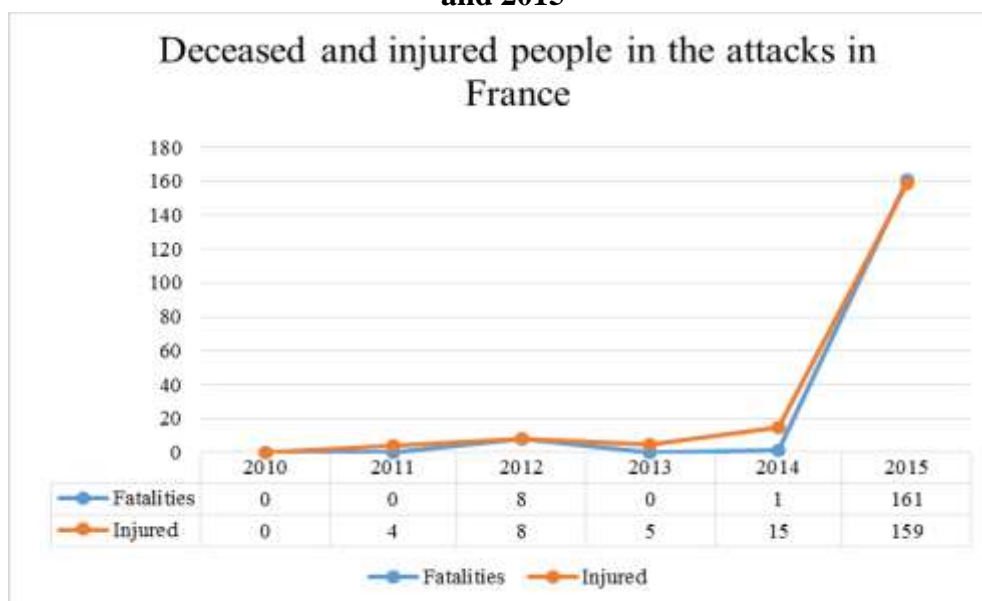
Source: own representation using Global Terrorism Database

The bloodiest year of the period under review is 2015, when 41 terrorist attacks have been made especially by armed attacks, being recorded 20 such attacks. In addition to this type of attack, eight more bombings and explosions were made, and six other attacks on the infrastructure were carried

out. The other 7 attacks in France were made using other attack methods, including: 3 attacks using Hostage Taking (Barricade Incident), 2 attacks using Hostage Taking (Kidnapping) and an Unarmed Assault.

We can see from the Figure 3 that the most casualties were reported in 2015. It's about the five attacks that were realized in Paris on November 13 by individuals belonging to the Islamic State of Iraq and the Levant (ISIL) terrorist group.

Figure 3. The number of deceased and injured people in the attacks in France between 2010 and 2015



Source: own representation using Global Terrorism Database

Likewise, the most violent attack that resulted in 92 deaths and 101 injured people was the one in which three ISIL Islamists attacked a showroom where the American band Eagles of Death Metal was supporting the concert.

3.4. The terrorist attacks in Germany and their adverse effects on the safety of German citizens

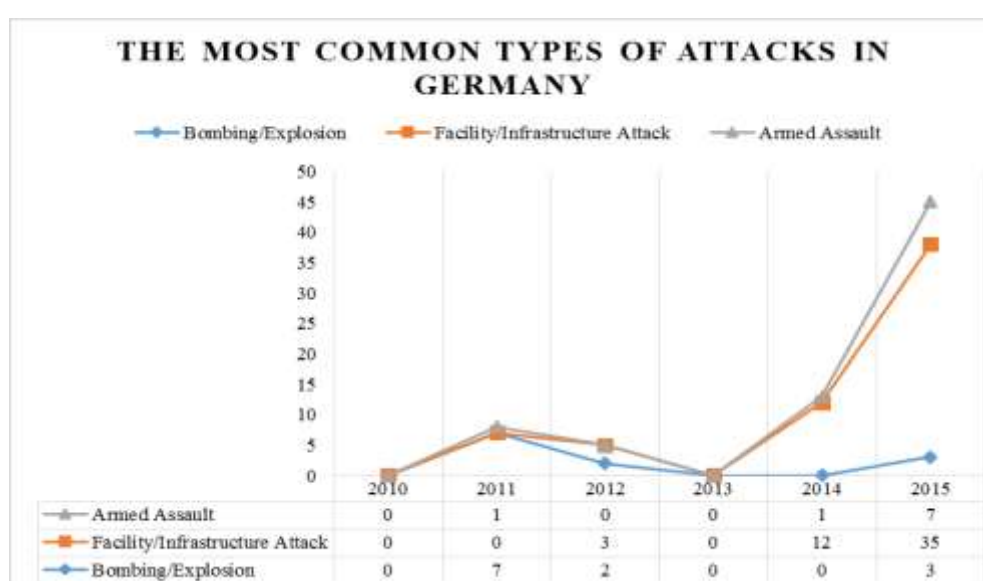
The German state was also struck by the fury of terrorists who committed 77 attacks on German territory between 2010 and 2015, almost half of the attacks in France. A similarity between France and Germany related to the attacks that took place in the two states is that in both countries 2015 was the year with the most recorded attacks.

The most common attack method used by terrorists in the attacks that were registered in Germany was Facility/Infrastructure Attack (50 such attacks in the reference period) involving

attacking commercial or government facilities and the transport systems sector, including airports and aircraft as well as maritime entities. The primary objective of this type of attack is to cause massive damage to properties.

Germany's quietly years on terrorism were 2010 and 2013 when there were no terrorist attacks on the Germans territory. Also, 2011 was characterized by few attacks against Germany with only 8 cases including 7 bomb attacks and one armed attack. No major terrorist attacks occurred in 2012 being recorded only 2 bomb attacks and 3 infrastructure attacks in Germany.

Figure 4. The most common types of attack used in the assaults in Germany in 2010 – 2015



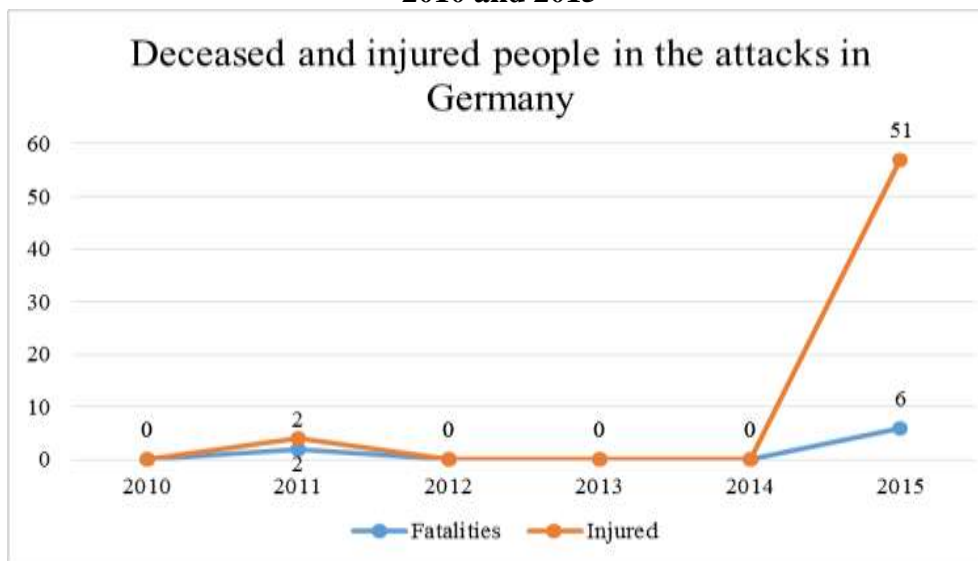
Source: own representation using Global Terrorism Database

At the opposite there is 2015 when have occurred 50 terrorist attacks, most of them having as method the Facility/Infrastructure attack, followed by 7 armed attacks and 3 bombings. Other types attacks used in 2015 include: 2 assassinations, 2 unarmed attacks, and 1 unknown attack.

In the figure below we can identify the number of deceased or injured people in the attacks that took place in Germany between 2010 and 2015. Thus, two deaths and two injured people were reported during the attacks in Frankfurt in March 2011 when several soldiers were attacked by terrorists who were not affiliated to any terrorist group but acted individually.

The 50 attacks in 2015 resulted in 51 injured people and six deceased people. The attacks were spread in several German cities, most injured people were recorded in the attack that took place in Altenburg in December 2015. The origin of the assailants and the terrorist affiliation are not known and fortunately there were no deceased persons in the time of the attack.

Figure 5. The number of deceased and injured people in the attacks in Germany between 2010 and 2015



Source: own representation using Global Terrorism Database

Another attack in Germany that killed 4 people and produced many injured people took place in Pforzheim in November 2015 and also in this case the attackers are unknown and we do not have any information about their terrorist affiliation.

4. The main results of the implementation of the EU-Turkey Declaration recorded up to this point

The necessity of including this section in the current study, as well as its connection with the approached subject is justified through the fact that EU – Turkey Statement aims for a better handling of migration by limiting the illegal one but also securing the areas near Turkey borders. Moreover, this analysis presents also the types of experts provided by Frontex in Greece, among these being Security Officers but also some other type of staff that is taking care of border protection, refugees and locals. In this research it is highlighted the involvement of European states and Turkey in an efficient administration of migration in the strongly affected areas and their security.

The agreement between the European Union and Turkey has been implemented since 29 November 2015 as a result of the large influx of refugees. It is made up of several elements aimed to eliminate the illegal migration of refugees from Turkey to the European Union.

The main issues behind the agreement are (European Council, 2016):

- Refugees who have crossed the border between Turkey and Greece irregularly since 20 March 2016 will be returned to Turkey.

- Making an exchange of the fact that for every refugee with Syrian nationality which is returned to Turkey from Greece, another Syrian will be relocated from Turkey to a member state of the European Union.
- Turkey has committed itself to take all measures to prevent the opening of new illegal migration routes to the European Union cooperating for this purpose both with its neighbouring states and with the EU member states.
- Turkey will work both with the European Union states to improve the situation in Syria, especially in the areas near to the Turkish border this being done in order to ensure both the refugees and the local population to live in a more secure area.

One year after the implementation of the EU-Turkey Statement progress has been made in reducing the number of illegal border crossings and deaths in the Aegean Sea. The implementation of the agreement requires continued efforts, although notable progress has been made on all the commitments made in the Statement.

Significant progress has been observed in the number of people arriving Greece from Turkey during the following period 8 December 2016 – 26 February 2017 with an average of 43 people per day which means approximately 3.500 people who arrived in Greece from Turkey compared to the same period of the previous year when about 200.000 refugees were registered during 8 December 2015 - 26 February 2016. We can identify a similar situation with a month before the implementation of the statement when the arrivals were about 1.700 refugees per day.

At the same time, we can state that great progress has been made in terms of the number of deceased or lost people in the Aegean Sea, given the fact that between December 2016 and February 2017 there were 70 people that were declared dead or lost while in the same period of the following year the number of deceased or lost refugees it was about 1.100 people.

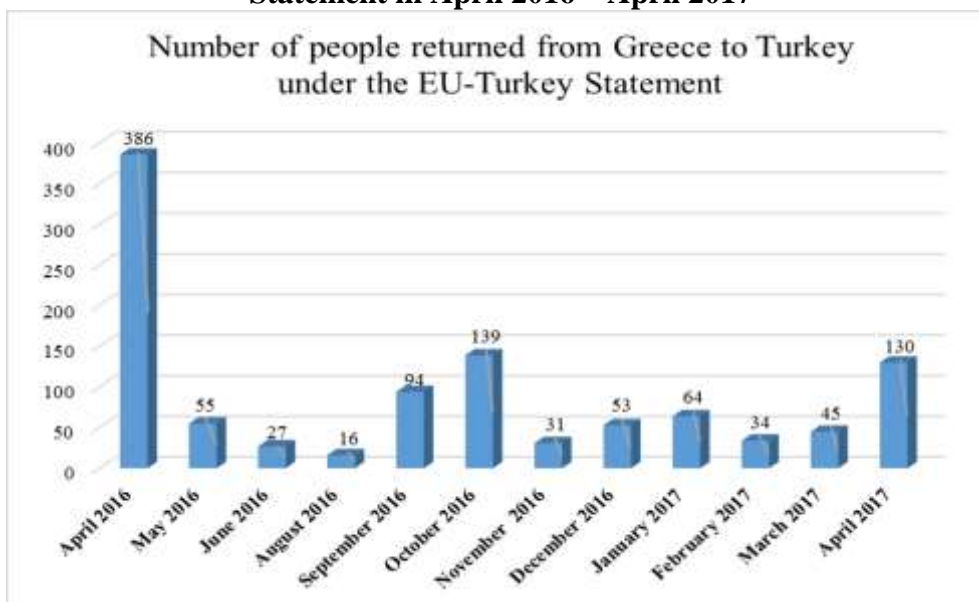
In the Figure 6 we can see the number of people returned to Turkey from Greece, given the agreement between the EU and Turkey, the analysis being realized for the period April 2016 - April 2017. During this period we can see that the most of the refugees returned to Turkey were recorded in the first month under review as well as in October 2016.

At the same time, although between November 2016 and March 2017 there was a small number of people returned to Turkey from the Greek islands and we can observe that in the last month of reference the number of those returned has increased over the previous months.

Another progress made following the implementation of the EU-Turkey Statement is that from the beginning of 2016 to the beginning of 2017 approximately 7.000 refugees benefited from the Greek voluntary return and assisted reintegration program, which means that the refugees can benefit

from help that comes from the possibility of returning voluntarily to Turkey or to their countries of origin (European Commission, 2017).

Figure 6. The number of returned people from Greece to Turkey under the EU-Turkey Statement in April 2016 – April 2017



Source: own representation using europa.eu database

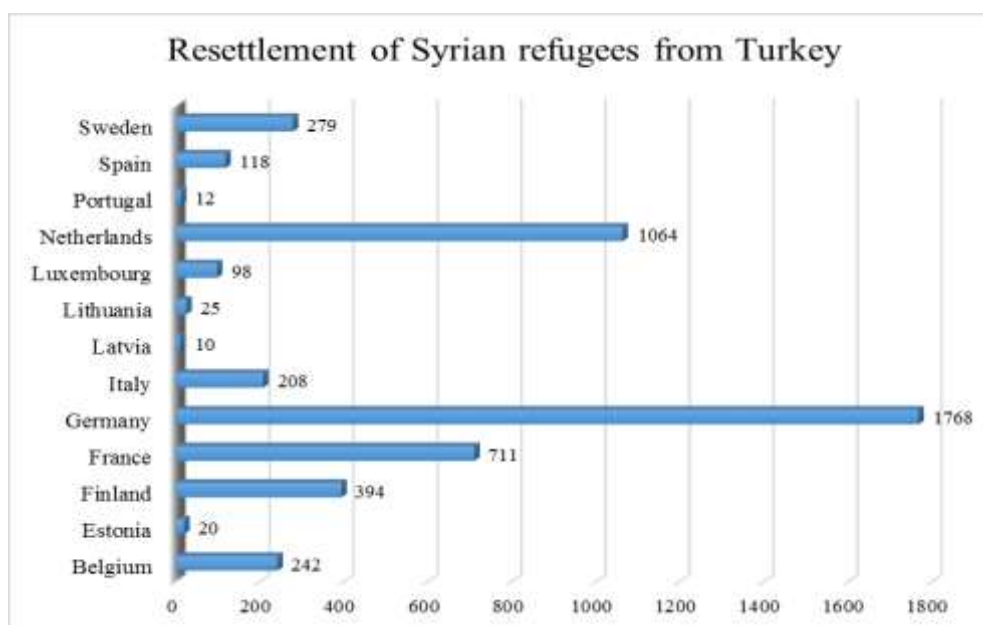
One of the elements that are part of the EU-Turkey Statement is that for every refugee coming from Syria that is returned to Turkey from Greece, another person with a Syrian nationality will be relocated from Turkey to a state that is part of the European Union (European Commission, 2017).

As a result, the chart below gives us an insight into the countries that received refugees from Turkey as a result of complying with the commitments made in the EU-Turkey Statement.

We can see from the Figure 7 that only 13 of the 28 countries that are part of the European Union received Syrian refugees from Turkey.

Thus, Germany is the state that received the most refugees, summing up 1768 refugees, following the Netherlands which received a total of 1064 refugees. In this ranking Latvia received the fewest refugees from Turkey, namely 10, followed by Estonia which received 20 Syrian refugees.

Figure 7. The number of reinstated Syrians from Turkey in selected EU countries



Source: own representation using europa.eu database

To understand the authorities' efforts to manage this crisis with the responsibility for such a situation, we can see in the table below the categories of staff involved in the operational operations in Greece. In this way, we can identify experts who were seconded by Frontex and the European Asylum Support Office (EASO), the number of those sent out being determined by the two above mentioned in collaboration with the European Commission and with the Greek authorities.

The European Asylum Support Office is an EU agency that acts as an independent centre for asylum expertise. The bureau has the role of coordinating EU member states to provide protection to refugees, to support states that have pressures on refugee reception and to strengthen cooperation between states (European Asylum Support Office, 2014).

Table 1. Types of experts detached by the European Asylum Support Office (EASO) in Greece

Interpreters	Asylum Experts	Staff	Registration officers - seconded to Greek Asylum Service
150	124	26	18

Source: europa.eu

From the table above we can see that most EASO experts in the Greek islands were Interpreters and Asylum Experts. This is explained by the fact that Greece has been confronted with the problem of arriving refugees on its territory since the crisis, being the most affected state in this regard. A large number of Interpreters (150 people) are needed to enable communication between refugees and

authorities, while the 124 Asylum Experts contribute to the analysis and assessment of the refugee asylum situation in the area.

Table 2. Types of experts detached by Frontex in Greece

Escort officers and readmission experts	96
Fingerprinting and Registration Officers	64
Interpreters	27
Security Officers	280
Border Surveillance Officers and Crew Members	261
Team leaders, Coordination staff and Support Officers	75
Debriefing Experts	12
Screening Experts	20
Advanced Document Officers and First Line Officers	17
National Officers responsible for technical equipment	13
NATO vessel liaison officers	2

Source: europa.eu

It is the European Border and Coast Guard Agency (Frontex) which together with the European Asylum Support Office (EASO) has been involved in effectively managing this crisis by deploying a large number of staff in Greece.

Frontex's role is to support the EU Member States and the Schengen area in managing external borders and to facilitate the collaboration between the border authorities of the EU member states, thus giving both technical support and Expertise in the field (Europa.eu, 2017).

From Table 2 we can see that most of those experts detached from Frontex in Greece are Security Officers (280 experts) and Border Surveillance Officers and Crew Members (261 experts). At the same time, there is also staff in the hotspot areas that they are dealing with and they are providing assistance in identifying refugees, fingerprinting, actually in the activities that are absolutely necessary for the acceptance of refugees and their further integration.

As Frontex and EASO work together with the common goal of protecting the external borders and managing the refugee crisis effectively in Greece, the total number experts that are providing their expertise is 1,185 people who are trying to mitigate the negative effects of the crisis that has spread in the Greek islands.

5. The costs covered by the European Union to ensure the security of the European states

The European Union underlines the importance of increasing costs in terms of defending and enhancing external security, taking into account the existing geopolitical framework and the increase of the terrorist attacks in Europe since the start of the refugee crisis.

At the end of this chapter, I will try to answer the main question of this research, namely: "Is the European Union able to cope with the challenges regarding migration, while ensuring its safety?".

Since 2016 the EU budget has provided the financial possibility for member states to manage the refugee crisis and to combat terrorism. To this end in 2016 the European Union has given 4 billion Euros to support member states and third countries in managing this crisis. (European Council, 2016)

In 2016 the European Union considered it is necessary to increase funding for the protection of the member states against terrorist attacks. In this respect, comparing with 2015, the internal security fund increased by 64% on commitments and 46.7% on payments. This fund is intended to implement the Internal Security Strategy of the member states of the European Union, the management of the external borders and the cooperation of the states in the field of law enforcement. In fact, in 2016 the European Union provided 4.052 billion Euros in commitments on security and protection for citizens and 3.022 billion Euros in payments (European Council, 2016).

Given that the migration and the security situation continues to be on the list of priorities for the European Union, the budget for 2017 brings about 6 billion Euros of funding for an ideal approach to the refugee crisis and Europe's security which means that the EU grants 11.3% more funds in 2017 than in the previous year to manage the pressures on migration. These funds will be used to create reception centres for refugees, to combat terrorism and prevent it, to assist member states in resettling refugees and helping to protect borders (European Council, 2017).

In 2017 the European Union provides the member states with 4.284 billion Euros to be used to honour the commitments made in terms of security and protection of citizens and 3.787 billion Euros in payments (European Council, 2017).

The package provided by the Union's budget for actions related to migration is worth 728 million Euros, plus 28 million will be given to the refugees in Palestine, with a total amount of 310 million Euros. At the same time, the budget includes additional 3 million Euros to contribute to the peace treaties in Cyprus, with total funds in this case of 34.8 million Euros (European Parliament, 2016).

6. The necessity for a European Border and Coast Guard Agency and its implementing arrangements

The European Border and Coast Guard Agency was set up in October 2016 to meet the new migration and internal security challenges that are absolutely necessary for the Schengen area that can work as long as external borders are protected (European Commission, 2017).

The need for a new agency came in the context in which the former border agency of the European Union, called Frontex did not meet the challenges posed by the refugee crisis. The fact that Frontex did not have its own operational staff, thus using staff made up of contributions from EU member states made it difficult to carry out actions to return refugees as well as to manage border guards without first requiring the aid from the member states (European Commission, 2017).

The new Agency is based on the set of elements that Frontex has built, but the innovation is given by the amplification of the role and activities of the European Border Agency and Coast Guard. Thus, the new agency identifies the vulnerabilities present at the external borders of the European Union that affect the optimum functioning of the Schengen area and the member states of the Union should in the shortest possible time to eliminate the identified precarious aspects (European Commission, 2017).

Another important aspect is that the new agency will have priority over cross-border crime prevention. In this respect, the Agency will be able to benefit from information provided by member states through competent authorities in this field, such as Europol, which will be useful in analysing and investigating the people suspected for smuggling, terrorism or trafficking people (European Commission, 2017).

The aforementioned issues as well as the security developments outlined in the first part of the article represent novelty aspects brought by the European Union in order to effectively manage this crisis.

Conclusions

Considering the intensification of the external threats to which the European Union has been subjected since the humanitarian crisis of the refugees, I believe that it is necessary to involve all the member states and their authorities in the cooperation with the regard of improving the security of citizens and the security of the external borders of the European Union.

This article highlights the progress made in the field of security, which is based on the Migration Agenda, with the emphasis on protecting the external borders, which is absolutely necessary for the

good functioning of the Schengen area. One of the most significant advances in this direction is the strengthening of the rapid response capacity of the European Border and Coast Guard Agency.

The article identifies the European countries that have suffered recent terrorist attacks, more precisely through 2016 and early 2017, including the following countries: Belgium, France, Germany, the UK and Sweden. The most aggressive attack of those in the previous states is that in France which took place in Nice, on the French National Day, which resulted in 86 deaths and 202 injured people.

Among the European states that were heavily affected by terrorism before the refugee crisis but also after its debut are France and Germany. The reasons that led to the outbreak of these terrorist attacks are multiple, one of them is the exacerbation of the fear of European citizens, the revenge towards certain racist and ridiculing attitudes of Muslim religion, the possible recruitment of followers and the attraction of attention on stopping the struggle against the terrorist from the Islamic State group.

The present research shows an analysis of the main types of attack used by terrorist groups in the assaults made in France and Germany between 2010 and 2015. The analysis revealed that bombings and facility/infrastructure attacks are the most frequent when we refer to the type of attack they use.

In fact, most of the deceased and injured people during the 2010 - 2015 attacks were recorded in the last reference year. Thus, in 2015 there was 161 people that died in France and 51 in Germany. Even in the case of injured people things are not better in France where was registered 159 injured people, while in Germany in the same year fewer victims were reported to be injured, namely 6.

This research captures results achieved one year after the implementation of the EU-Turkey Statement, so we can see cuts in the illegal border crossing and implicitly in the number of deaths in the Aegean Sea. On the other hand, the number of people returned to Turkey from Greece was identified, taking into account the EU-Turkey Statement and the fact that Germany received most of the Syrian refugees from Turkey following the aforementioned statement. Other states that received a high number of Syrians from Turkey are: the Netherlands, France and Finland.

Also, this article presents the personal involved in managing the crisis in the most affected areas of Greece where the pressure of receiving refugees is still high. Among the experts seconded by Frontex and the European Asylum Support Office I was able to identify: interpreters, asylum experts, security officers, screening experts.

As regards the costs incurred by the European Union in facing the pressures of this humanitarian crisis and in keeping the safety of European citizens, we can notice that the amounts granted by the European Union increased in 2017 compared to previous years, thus underlining once again the

importance of this issue for the EU member states. In this respect, the package provided by the budget of the European Union for actions intended for migration in 2017 is worth 728 million Euros.

I consider that this subject is an actual one with a special importance due to the current state of security of the European states that have suffered in the past because of terrorism, a phenomenon that has intensified as a cause of the refugee crisis, which leads to the need for intensive cooperation between EU member states to combat the negative effects of the attacks that have hit Europe in recent years.

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Is the EU-Turkey Action Plan an effective or just an apparent solution to the refugee crisis?

Carmen MOLDOVAN*

Abstract

European Union and its Member States have tried at least at political level to solve the problem of migrants and refugees inflows coming to Europe from the Middle East through Turkey and Greece. Latest attempts in this regard are represented by the 2015 European Union-Turkey Action Plan and the 2016 Statement of the European Union and Turkey which contained measures aimed to control the irregular migration and human trafficking acts, in accordance with the European Union law and international standards of refugee law. Although the aforementioned acts refer to concrete provisional and extraordinary measures concerning different categories of persons arriving in Greece and applying for asylum and they were actually put in practice by Turkey, their legally binding force is controversial in the context of the recent interpretation of the Court of Justice of the European Union in some similar cases, in which the Court found that the 2016 Statement is not an act concluded by the institutions of the European Union and it is not an agreement legally binding. In other words, it represents a political statement which is excluded from the legality examination of the Court. Although the decision of the Court may be legally correct for procedural reasons, this situation raises questions concerning the commitment of the European Union and its institutions to really analyse and find effective measures regarding persons arriving in the European Union territory and claiming international protection according to international standards. The aim of this paper is to analyse the legal implications of the 2015 Joint Action Plan and the 2016 Statement and their compatibility with the international legal standard of refugees and to show the lack of resilience in adapting to refugee and irregular migration problems, contrary to the European Union values and principles.

Keywords: political statement, legal effects, refugees, migration, jurisdiction

Introduction

Recent cooperation between the European Union or European Union Member States and Turkey concerning irregular migration from Syria and Middle East is based on two arrangements, from 2015 and 2016, both having the aim of reducing this phenomenon and the human smuggling by limiting the access of individuals to Greece and from there to other European Union Member States.

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This aim should be realized by returning all new irregular migrants crossing from Turkey into Greek islands as from 20 March 2016 to Turkey and all the measures should be in accordance with the EU Law and the International Law.

Although the reading of the Action Plan emphasizes that its scope is irregular migration it implicitly affects the persons that could be considered refugees and thus, it raises several issues regarding its compatibility with the 1951 Geneva Convention relating to the status of refugees which sets the basic standards on the legal status of refugees and their international protection to which the States parties may offer extensive rights (Goodwin-Gill, 2014, p. 38-39).

Having in regard that the 1951 Geneva Convention is the *lex specialis* within the international human rights law (Chetail, 2014, p. 703-704) and the general framework of the legal status of refugees and that the persons coming to Europe from Middle East call themselves refugees, the measures undertaken by the EU-Turkey Action Plan should be in accordance with the rules of the 1951 Geneva Convention. For this reason, some terminological remarks are needed.

Firstly, refugees are not migrants, in the sense of the 1951 Convention, as they are forced to leave their country of origin for reasons set by the international rules (Edwards, 2005, p. 328). At most, they may be considered subjects of forced migration (Chetail, 2014, p. 720), a special category of vulnerable persons to whom member States of the Geneva Convention have certain legal obligations.

According to Article 1 of the 1951 Geneva Convention as amended by its 1967 additional Protocol, a refugee is a person who is unable or unwilling to return to his country of origin “owning a well-founded fear of being persecuted for reasons of race, religion, nationality, membership of a particular social group or political opinion”. The significant element of refugee's legal status is that they lack protection of their own country, being in an intolerable situation and the refuse of providing protection for them could have severe or even deadly consequences (Weissbrodt, 2008, p. 152-155).

Secondly, Article 31 of the Geneva Convention provides special guarantees for the refugees unlawfully in the country of refuge including the prohibition to impose criminal penalties and to apply restrictions to their right to movement. Consequently, Member States have special negative obligations regarding refugees, taking into account that in many cases, the entry on the territory of the State of the person seeking the international protection of a foreign State is achieved through illegal means (Hofmann and Löhr, 2011, p. 1089).

Thus, there is a need to differentiate between the use of terms refugees, migrants and irregular migrants in connection with the term of international protection in order to establish the legal status

of which different categories of persons enjoy under the rules of international law and to shape the positive and negative obligations incumbent upon Member States.

The measures undertaken by States in order to prevent illegal migration by establishing more restrictive rules with respect to the admission of foreigners on their territory may have as legitimate objective the protection of the rights of its own citizens, public order and security of the territory. This type of measures are related to the sovereign attribute of the State to control the entry of foreigners on its territory, as a limitation of the freedom of movement enshrined in Article 12 of the International Covenant on Civil and Political Rights but they may have legitimacy in relation to migrants and irregular migrants.

The 1951 Convention is quite clear about the content of the rights and obligations of refugees and about the content of the *non refoulement* principle but the situation is different for the content of obligations towards refugees unlawfully in the receiving State and States may have the tendency not to give their full effect. The purpose of adopting the 1951 Convention was not to establish a framework for the State control on migration but to provide protection to those lacking the protection of the State of origin and who are at risk of persecution.

Host governments are primarily responsible for protecting refugees; the 144 parties to the Convention and/or the additional Protocol to the 1951 Geneva Convention are obliged to carry out its provisions. The United Nations Refugee Agency (UNHCR) maintains a 'watching brief' and intervenes if necessary to ensure *bona fide* refugees (Storey, 2012, p. 4) are granted asylum and are not forcibly returned to countries where their lives may be in danger.

The Agency seeks ways to help refugees restart their lives, either through local integration, voluntary return to their homeland or, if that is not possible, through resettlement in 'third' countries.

The refusal of Member States to comply with the obligations assumed or the tendency to reduce their content is primarily a violation of the 1951 Geneva Convention but also a violation of fundamental rights (including the right to life) which is one of the essential values of the European States.

In this broader context, one may say that only apparently the arrangements made by the European Union and Turkey may create the illusion of trying to solve the irregular migration and human trafficking issues and assisting Syrians seeking asylum. However, their content and the way that they were made public may raise some questions on their legal nature and consequences. In analysing these issues, a short presentation on their provisions and aims would seem useful and this will be the made in section 1 of the present paper alongside with the succession of facts.

1. The 2015 Joint Action Plan and the 2016 Statement

On 15 October 2015 (European Council, 2015), the Republic of Turkey and the European Union (EU) agreed on a joint action plan entitled ‘EU-Turkey Joint Action Plan’ designed to strengthen their cooperation in terms of supporting Syrian nationals enjoying temporary international protection and managing migration, in order to respond to the crisis created by the situation in Syria.

The Joint Action Plan aimed to respond to the crisis situation in Syria in three ways, namely, first, by addressing the root causes leading to a mass exodus of Syrians, secondly, by providing support to Syrians enjoying temporary international protection and to their host communities in Turkey and, thirdly, by strengthening cooperation in the field of preventing illegal migration flows towards the European Union (de Marcilly and Garde, 2016).

Following the Joint Action Plan, on 29 November 2015 (European Commission, 2016) the Heads of State or Government of the Member States of the European Union met with their Turkish counterpart and they decided to activate the joint action plan and, in particular, to step up their active cooperation concerning migrants who were not in need of international protection, by preventing them from travelling to Turkey and the European Union, by ensuring the application of the established bilateral readmission provisions and by swiftly returning migrants who were not in need of international protection to their countries of origin.

On 8 March 2016 (European Council, 2016), a statement by the Heads of State or Government of the European Union, published by the joint services of the European Council and the Council of the European Union, indicated that the Heads of State or Government of the European Union had met with the Turkish Prime Minister in regard to relations between the European Union and the Republic of Turkey and that progress had been made in the implementation of the joint action plan.

The statement specified that the aims were to close down people smuggling routes, to break business models of the smugglers, to protect the external borders of the EU and to end the migration crisis in Europe. These aims were to be achieved by working on two basic principles: returning all new irregular migrants crossing from Turkey into the Greek islands with the costs covered by the European Union and resettling, for every Syrian readmitted by Turkey from Greek islands, another Syrian from Turkey to the European Union Member States.

The statement was followed by communications from the European Parliament, the European Council and the Commission which underlined that the return of the new irregular migrants and asylum seekers from Greece to Turkey was an essential component in breaking the pattern of refugees

and migrants paying smugglers and risking their lives and the temporary and extraordinary nature of such measures.

According to that communication, recent progress had been made in the readmission of irregular migrants and asylum seekers not in need of international protection to the Republic of Turkey under the bilateral Readmission Agreement between the Hellenic Republic and the Republic of Turkey, which was to be succeeded, from 1 June 2016, by the Agreement between the European Union and the Republic of Turkey on the readmission of persons residing without authorisation (2014).

On 18 March 2016, a new statement was published on the Council's website (European Council, 2016) designed to give an account of the results of 'the third meeting since November 2015 dedicated to deepening Turkey-EU relations as well as addressing the migration crisis' between 'the Members of the European Council' and 'their Turkish counterpart' ('the EU-Turkey statement').

This statement reaffirmed the need to break the business model of the smugglers and to offer migrants an alternative to putting their lives at risk and to end the irregular migration from Turkey to the European Union. In this respect, the 2016 statement provided *inter alia*, that all new irregular migrants crossing from Turkey into Greek islands as from 20 March 2016 will be returned to Turkey, in accordance with European Union law and international law, thus excluding any kind of collective expulsion. Once more, the 2016 Statement underlined the temporary and extraordinary nature of these measures.

The main measure provided by the 2016 Statement is that for every Syrian being returned to Turkey from Greek islands, another Syrian will be resettled from Turkey to the European Union taking into account the United Nations Vulnerability Criteria and priority will be given to migrants who have not previously entered or tried to enter the European Union irregularly (European Council, 2016).

2. The legal force of the 2015 Joint Action Plan and the 2016 Statement in the interpretation of the Court of Justice of the European Union

The main issue regarding the measures undertaken by the EU institutions and Turkey is the legal force of the 2015 Joint Plan of Action and the 2016 Statement (Danisi, 2017). In this respect recent proceedings instituted before the General Court of the European Union are relevant, although the result of the interpretation is criticisable.

In the *NF v European Council* Case (General Court, Order of 28 February 2017, T-192/16), a Pakistani national who had fled his country because of fear of persecution and serious harm to his person, entered Greece on March 2016, having the intention to reunite with members of his family, namely, his parents and two of his brothers, residing in the Federal Republic of Germany and to obtain family reunification in that Member State.

He submitted an application for asylum in Greece that was rejected by the Greek authorities, in particular because he explained to them his intention to continue his journey towards Germany. The Applicant claimed that he never intended to submit an asylum application in Greece because of the bad conditions in that Member State and the deficiencies in the implementation of the European Asylum System (EAS) in Greece and that the sole purpose of his application for asylum in Greece was to prevent him being returned to Turkey with, as the case may be, the risk of being detained there or being expelled to Pakistan. Thus, the applicant considers indirectly the EU-Turkey Statement an agreement that exposes them to risks of *refoulement* to Turkey or '*chain refoulement*' to Pakistan or Afghanistan, thereby obliging them to apply for international protection in Greece, against his will.

The Court was requested to annul the agreement between the European Council and Turkey dated 18 March 2016, considering that the EU-Turkey Statement was an act attributable to the European Council establishing an international agreement concluded on 18 March 2016 between the European Union and the Republic of Turkey (Action brought on 22 April 2016, *NF v European Council*, Case T-192/16).

The Applicant alleged that: the agreement between the European Council and Turkey dated 18th March 2016 entitled "EU-Turkey statement, 18th March 2016", is incompatible with European Union fundamental rights, particularly Articles 1, 18 and 19 of the Charter of Fundamental Rights of the European Union; that Turkey is not a safe third country in the sense of Article 36 of Directive 2005/85/EC of 1 December 2005 on minimum standards on procedures in Member States for granting and withdrawing refugee status (Official Journal L 326, 13.12.2005, p. 13-34); that Directive 2001/55/EC of 20 July 2001 on minimum standards for giving temporary protection in the event of a mass influx of displaced persons and on measures promoting a balance of efforts between Member States in receiving such persons and bearing the consequences thereof (Official Journal L 212, 7.8.2001, p. 12-23) should have been implemented; that the challenging agreement is in reality a binding Treaty or "act" having legal effects for the Applicant and that the failure to comply with Article 218 Treaty on the Functioning of the European Union (TFUE, 2007) and/or Article 78.3 Treaty on the Functioning of the European Union (TFUE, 2007) either together or separately, render the challenged agreement invalid; that the prohibition of collective expulsion in the sense of Article

19.1 of the Charter on Fundamental Rights of the European Union is breached (Action brought on 22 April 2016, *NF v European Council*, Case T-192/16).

During the proceedings, the European Council and the European Commission challenged the legal nature of the 2016 statement and its legal force. The European Council submitted that no agreement or treaty in the sense of Article 218 of the Treaty on the Functioning of the European Union (TFEU, 2007) or Article 2 (1) (a) of the Vienna Convention on the law of treaties of 23 May 1969 had been concluded between the European Union and the Republic of Turkey, taking into consideration the procedure described in Article 218 TFEU for the conclusion of agreements between the European Union and third countries or international organisations.

The 2016 EU-Turkey statement, as published by means of Press Release No 144/16 (European Council, 2016), was, merely "the fruit of an international dialogue between the Member States and the Republic of Turkey and — in the light of its content and of the intention of its authors — [was] not intended to produce legally binding effects nor constitute an agreement or a treaty" (General Court, Order of 28 February 2017, Case T-192/16, paragraph 26). In its view, the meeting of 18 March 2016 was a meeting of the Heads of State or Government of the Member States of the European Union with the representatives of the Republic of Turkey, and not a meeting of the European Council in which that third country had participated (General Court, 2017, Order of 28 February 2017, Case T-192/16, paragraph 27).

Furthermore, the European Council stated that the EU-Turkey statement was issued by the participants in an international summit held, in this instance, on 18 March 2016 in the margins of and following the meeting of the European Council. Therefore, that statement is attributable to the Members of the European Council, which are the Member States of the European Union, and their "Turkish counterpart", since they met in the context of a meeting distinct from that of the European Council and it contends that the EU-Turkey statement cannot therefore be considered as a measure adopted by it (General Court, Order of 28 February 2017, Case T-192/16, paragraph 37).

The Commission submitted that the 2016 statement was a political arrangement reached by the Members of the European Council, the Heads of State or Government of the Member States, the President of the European Council and the President of the Commission and thus not a binding agreement (General Court, Order of 28 February 2017, Case T-192/16, paragraph 28).

In analysing the legal nature of the 2016 Statement, the Court had to establish if the statement, as published by means of the press release, reveals the existence of a measure attributable to the European Council, and whether, by that measure, that institution concluded an international agreement (General Court, Order of 28 February 2017, Case T-192/16, paragraph 46).

The Court considered the set of elements and circumstances which preceded the press release of the 2016 statement and stated that the expression "Members of the European Council" and the term "EU", contained in the EU-Turkey statement should be

“understood as references to the Heads of State or Government of the European Union who met with their Turkish counterpart and agreed on operational measures with a view to restoring public order, essentially on Greek territory, that correspond to those already mentioned or stated previously in the statements published in the form of press releases following the first and second meetings of the Heads of State or Government of the Member States of the European Union with their Turkish counterpart” (General Court, Order of 28 February 2017, Case T-192/16, paragraph 68).

As a consequence, the Court appreciated that the overall context of the publication of the Press Release No 144/16 does not have the meaning of adopting the decision by the European Council as an European Union institution, to conclude an agreement with the Turkish Government and in this way to commit the European Union and thus, the European Council did not adopt any measure that corresponds to the contested one (General Court, Order of 28 February 2017, Case T-192/16, paragraph 69).

Having these arguments in mind, according to Article 236 of the Treaty on the Functioning of the European Union (TFEU), the Court dismissed the action for lack of jurisdiction.

The same arguments were used by the General Court in two similar cases (General Court, Order of 28 February 2017, NG v European Council, T-193/16 and NM v European Council, T-257/16).

At the moment, an appeal is pending that was lodged on 21 April 2017 against the Order of the General Court delivered in the Case T-192/16, NF v. the European Council (General Court, 2017) but there is little doubt that the interpretation of the legal nature of the 2016 Statement would be different mainly because it would be considered a dangerous precedent. Yet the question still remains if the Court will continue to validate political actions and to subordinate legal principles to political will.

3. Critical elements of the General Court's interpretation in the Order of 28 February 2017

The reasoning of the Court supports the lack of its jurisdiction due to the political nature of the 2016 statement invoked by the applicants and it may seem that the aim is to provide legal arguments

in this matter. Although from a strict procedural legal reasons perspective, the conclusion may appear as justified, from the perspective of general international law, it is criticised in particular for the way in which the Luxembourg Court did not apply the general rule of interpretation of international treaties (Danisi, 2017) enshrined in Article 31 of the Vienna Convention on the law of treaties from 1969, namely, “*in accordance with the ordinary meaning to be given to the terms of the treaty in their context and in the light of its object and purpose.*” (Villiger, 2009).

All references to the law of the treaties in this paper are justified by the fact that the Vienna Convention on the Law of Treaties establishes the terminological neutrality on the term of "international treaty". Article 2 paragraph 1 (a) of the 1969 Vienna Convention defines the term "treaty" as “*an international agreement concluded between States in written form and governed by international law, whether embodied in a single instrument or in two or more related instruments and whatever its particular designation*”.

The definition of the term treaty is completed by the Vienna Convention on the Law of Treaties between States and International Organizations or between International Organizations of 1986. According to Article 2 par.1 (a) from the 1986 Convention

“‘treaty’ means an international agreement governed by international law and concluded in written form: (i) between one or more States and one or more international organizations; or (ii) between international organizations, whether that agreement is embodied in a single instrument or in two or more related instruments and whatever its particular designation;”.

The definitions of the term “treaty” given by the Vienna Conventions cover a multitude of formal (called treaty, convention, protocol, declaration, charter, pact, statute, agreement) or less formal types of acts (exchange of notes, note verbale, exchange of letters, agreed minutes) and the Vienna Conventions do not require any particular form or elements, in case of a dispute regarding the existence of a treaty or its legal status, the criteria used to determine the nature of the document and its effects are the actual terms and the particular circumstances in which it was made (Fitzmaurice, 2014, p. 167).

The general rule of interpretation of international treaties enshrined in Article 31 of the 1969 Vienna Convention is considered customary international law (Fitzmaurice, 2014, p. 179).

According to Article 47 of the Treaty on European Union (TEU, 2007), the European Union has its own legal personality and it is an independent legal entity (Adam *et al.*, 2015, p. 14-15). As such, the European Union enjoys a *treaty-making power* meaning the capacity to enter into treaties

(Crawford, 2012, p. 179) and has the ability to conclude and negotiate international agreements in accordance with its external commitments, become a member of international organizations, join international conventions, such as the European Convention on Human Rights, stipulated in Article 6 (2) of the TEU. Hence, the questions and controversies on the international legal status and personality (Wesel, 1997, p. 109-129; de Schoutheete and Andoura, 2007) of the European Union have been clarified.

The General Court did analyse the context in which the 2016 statement was released and made public through press release its content (General Court, Order of 28 February 2017, Case T-192/16, paragraphs 8-9), but failed to establish the purpose and the objectives of the statement. Moreover, these were not the essential elements of the analysis.

Instead the Court focused on the institutions of the European Union that were involved in this process, without taking into consideration the context of cooperation relations between the European Union as an independent actor (Danisi, 2017) and Turkey since the beginning of the refugee crisis. Nevertheless, it is true that no compromise was concluded following the 2016 statement between the European Union and Turkey, but in the context of cooperation with Turkey in the solving the afflux of refugees and irregular migration issues, the Court did not clearly indicated if the measures envisaged by the 2016 Statement were legally binding or not (Danisi, 2017). Moreover, the Court did not exclude the existence of an informal international agreement, but said that the Statement is an agreement between States without performing a real analysis of the capacities of the European Union, its institutions and those of the Member States in concluding international agreements (General Court, Order of 28 February 2017, Case T-192/16, paragraph 70).

The conclusion of the general Court was that neither the European Council nor any other institution of the EU decided to conclude an agreement with the Turkish Government on the subject of the migration crisis. Consequently, 'In the absence of any act of an institution of the EU, the legality of which it could review under Article 263 TFEU, the Court declares that it lacks jurisdiction to hear and determine the actions brought by the three asylum seekers.

By applying principles of international law, the General Court of the European Union could have found the arguments to qualify the 2016 Statement as an act of the European Union and thus admitting the possibility for the legality of such an act to be examined by the Court.

4. The compatibility of the 2015 Joint Action Plan and the 2016 statement with the general international law status of refugees

Although the reading of the 2015 EU-Turkey Action Plan (European Commission, 2015) and of the 2016 Statement (European Council, 2016) emphasizes that their declared aim is to put an end to irregular migration from Turkey to the European Union and to break the business model of the smugglers by returning all new irregular migrants crossing from Turkey into Greek islands as from 20 March 2016, their provisions actually have implications to the legal status of refugees.

These acts implicitly affect the persons that could be considered refugees and thus, they raise several issues regarding its compatibility with the 1951 Geneva Convention relating to the status of refugees which sets the basic standards on the legal status of refugees and their international protection to which the States parties may offer extensive rights.

The European Union legal order formally promotes the respect of human rights as an essential value since the Charter of Fundamental Rights of the European Union (2012) is part of European Union positive law yet a legitimate question appears concerning the compatibility between the provisions of the EU-Turkey statements and the European values.

Even if the EU-Turkey Action Plan and Statement are to be considered compatible with the European Union legal rules and principles, it should be noted that they do not offer a complete answer to the refugee's situations as their stated scope is the illegal migration coming to Europe from Turkey. As a consequence, persons coming to Europe from other countries are left outside these measures and may be more vulnerable to abuse.

Besides the collective formal (or informal? taking into consideration the interpretation of the General Court from 2017 General Court, Order of 28 February 2017, Case T-192/16, paragraph 38) measures undertaken by the European Union at an institutional level, individual measures undertaken by Member States in restricting the access of persons claiming the status of refugee on their territory are put in place. Such approach has serious implications and may be considered a disproportionate restriction on the respect of the right to free movement and indirectly a failure to respect the fundamental right to life, taking into consideration that according to 1951 Geneva Convention (Cantor, 2015, p. 81-82) relating to the status of refugees States assumed positive and also negative obligations towards persons claiming the status of refugee.

Although the 2016 Statement was not considered an act of the European Union, it raises several issues regarding its compatibility and of other related acts, in particular the 2015 Joint Plan Action,

with the 1951 Geneva Convention which sets the basic standards on the legal status of refugees and their international protection to which the States parties may offer extensive rights.

The measures undertaken by the EU-Turkey Action Plan and Statements are contrary to the 1951 Geneva Convention. Firstly, refugees are not migrants, in the sense of the 1951 Convention, as they are forced to leave their country of origin for reasons set by the international rules. At most, they may be considered subjects of forced migration (Casanovas, 2003), a special category of vulnerable persons to whom member States of the Geneva Convention have certain obligations. Secondly, Article 31 of the Geneva Convention provides special guarantees for the refugees unlawfully in the country of refuge including the prohibition to impose penalties and to apply restrictions to their right to free movement (Goodwin-Gill and McAdam, 2007, p. 448).

It is true that the European Union as an international legal entity that holds international personality and the capacity to conclude international treaties is not a part of the 1951 Geneva Convention on the status of refugees, but its Member States are parties to this Convention. Consequently, Member States have special negative obligations regarding refugees, taking into account that in many cases, the entry on the territory of the State of the person seeking the protection of a foreign state is achieved through illegal means (Hansen, 2014).

If the different acts (action plans, statements) concluded with Turkey are to be considered namely as acts of the Member States, the incompatibility issue between these acts and the provisions of the 1951 Geneva Convention still remains.

Hence, there is a need for the European Union regulations to differentiate between the use of terms *refugees*, *migrants* and *irregular migrants* in connection with the term of international protection in order to establish the legal status of which different categories of persons enjoy under the rules of international law (Betts, 2010) and to shape the positive and negative obligations incumbent upon Member States. The purpose of adopting the 1951 Convention was not to establish a framework for the State control on migration but to provide protection to those lacking the protection of the State of origin and who are at risk of persecution (Cancado-Trindade, 2006).

The measures undertaken by States in order to prevent illegal migration by establishing more restrictive rules with respect to the admission of foreigners on their territory may have as legitimate objective the protection of the rights of its own citizens, public order and security of the territory and are related to the sovereign attribute of the State to control the entry of foreigners on its territory, as a limitation of the freedom of movement. However, they may have legitimacy in relation to migrants and irregular migrants, but not to persons claiming international protection and the refugee status.

The 1951 Convention is quite clear about the content of the rights and obligations of refugees and the content of the *non refoulement* principle (Harvey, 2015, p. 49) but the situation is different as for the content of obligations towards refugees unlawfully in the receiving State and States may have the tendency not to give their full effect. The refusal of Member States to comply with the obligations assumed or the tendency to reduce their content is primarily a violation of the 1951 Geneva Convention but also a violation of fundamental rights (including the right to life) which is one of the essential values of the European States.

The arrangement between European Union and Turkey is often called the 'EU-Turkey Deal' but its continuance may be questionable because of the rhetoric of the Turkish President against Europe and the measures undertaken in Turkey after the 2016 military coup consisting in suspension of application of human rights as a result of the suspension of the European Convention on Human Rights (1950). Yet there is a widespread opinion that the arrangement between the European Union will last due to its pragmatic nature for both European Union and Turkey (Dempsey, 2017). Both parties are co-interested in realising the term of the arrangement as Turkey seeks the financial benefits from the European Union which has committed to pay to Turkey 3 billion Euros

As statistics show, a total number of 8817 Syrian refugees were resettled from Turkey to the European Union Member States after 4 April 2016 (European Commission, 2017), a number that is very small compared to the total number of Syrian refugees of over 4 million persons reported by the UNHCR in 2015 (UNHCR, 2015) and the total number of over 5 million persons reported until August 2017 (UNHCR, 2017).

Conclusions

The refugee crisis has seriously shaken the European Union and the European Union Member States as the massive influx of persons caused distress and finally showed the incapacity of the European Union institutions and Member States to find a reasonable solution in applying the International and European rules and to adapt to this phenomenon.

The European approach in this regard is inconsistent and contradictory with the international status of refugees and their implications emphasize the fragmentation of the applicable rules in assuring the minimal international legal protection of refugees.

The impact of the great influx of migrants and refugees towards Europe and the difficulties in providing a prompt and legal reaction by the European Union and the European States were anticipated by international personalities such as Kofi Annan, former United Nations Secretary

General in words that should determine us and the European political institutions to reflection and actively search of an appropriate solution to this situation. His opinion on the principles that should guide the finding of effective solutions reads as follows:

"The scale of the current crisis is testing the unity and solidarity of Europe and its institutions. But it should not prevent Europe from taking the necessary steps to ensure that all refugees and migrants who arrive on its shores are protected and assisted. We believe that Europe's leaders can rise to this challenge by adopting and implementing policies and practices that respect international law and reflect Europe's commitment to human rights and the dignity of the individual." (Annan, 2015).

In this light, solving the so called refugee crisis in Europe should imply more transparent decisions and must actively and effectively assist those persons coming to Europe in search for protection taking seriously into consideration the legal framework established by international law.

Recent statistics from the United Nations Refugee Agency (UNHCR, 2017) and European Asylum Support Office (EASO, 2017) show a decline in the number of refugees and migrants heading to Europe in the first half of 2017, but there is doubt that this a result of the EU - Turkey cooperation. Although the 2015 Joint Plan Action and the 2016 Statement may seem necessary from a pragmatic point of view, they still are criticisable from the legal perspective having in mind the rules and principles of international refugee law and also the system and principles provided by the European Union law regulating the status of asylum seekers, refugees and migrants. It appears that an objective of collective security is more important than the legal principles that the European Union and its Member States embraced, one of them being the right to find asylum (Gil-Bazo, 2015, p. 5).

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European Union and diaspora engagement policy within changing realities

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Abstract

The article presents an analysis of the European Union and diaspora engagement policy within changing realities. The author focuses on the main research question concerning how the new, uncontrolled migration flows may influence the approach on diaspora engagement policy within member states. This process could have positive as well as negative implications for the Community space even if the EU attempts to develop a new legal framework on migration. The interdisciplinary approach and methods as empirical analysis, comparison and observation on some good practices and new issues gave the possibility to estimate the results of how changing diaspora role perception reduces the gap between different migrants in the EU and improves the diaspora engagement dialogue on institutional and civil society level.

Keywords: diaspora engagement, good practices, migration, changing realities

Introduction

Diaspora engages in different fields of interest and in manifold ways. Governments employ a variety of methods to engage with their diasporas and use different institutional forms at different governmental levels. Following the new trends in diaspora policies world-wide, we could expect that the EU Member States should have taken a deeper look at the outflows of human capital and that they might focus on engaging emigrants in development strategies.

More recently, in June 2016, the Commission presented an action plan which includes a policy framework and concrete measures to help member states to integrate on about 25 million nationals of third countries being legally residents within the European Union. A deeper understanding of mainstreamed policy innovations for diaspora is important to Europe's immigrant integration efforts, since intended beneficiaries of traditional integration policy are no longer a discrete and easily identifiable population—and in some localities, they are not even minorities. At a time when public budgets are tightening, governments are articulating new strategies to ensure that the needs of all vulnerable groups are met more effectively through mainstream policy change.

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In that order, the research goal is analysing the problems and good practices of stakeholders, inter-ministerial, inter-agency coordination for establishing an efficient, comprehensive, sustainable and future-oriented EU diaspora engagement policy within changing realities.

This study will focus on the following hypothesis: The traditional emigration countries of the European Union have different approaches to diaspora engagement. The focus is on catering for the cultural needs of the communities of the same cultural background abroad, such as language schools, national curricula schools or active cultural programs for diaspora. A separate category of catering for diaspora needs are policies focusing on vulnerable emigrants. Over a million persons have arrived in Europe since January 2015, many of them fleeing conflict zones in Syria and Iraq and their integration into host societies may pose difficulties due to the scale of the phenomenon.

The research questions are: What does supporting states in developing tailored diaspora engagement policies and approaches mean?; How to empower the diaspora and create spaces for government-diaspora interaction?; What are the changing realities with impact on diaspora role within the EU migration policy? These one may increase or reduce its role?

The methodological approach of this research consists, firstly by using the comparative method to identify the similarities and differences in forming the policy towards diaspora in the European space, also, empirical analysis of some qualitative and quantitative data presented in tables. Author will contextualize diaspora and diaspora engagement in migration and development policy, followed by a brief discussion on different concepts and approaches. There will be discussed some European good practices: traditional diaspora engagement building policies, government strategies, programs focusing on emigrants through the EU member states. It will be analysed the support given to states in developing tailored diaspora engagement policies and approaches.

1. ‘Diaspora engagement policy’ concept into the migration-development nexus

A brief analysis of the term ‘diaspora’ emphasizes that it has different meanings to different scholars (Spagnul, 2010). Recent years and different studies made this one to become a universal concept changing over time (Faist, 2010). Diaspora can be very generally defined “as people who have migrated, and their descendants, who maintain a connection to their homeland” (Plaza *et al.* 2011, p. 3). It “always refers to a community or group” (Faist, 2010, p. 13). The most representative example is Jewish or Armenian diaspora. At the beginning the concept underlined trading diasporas (Brubaker, 2005), and later, social and political engagement of migrant alliances. So, there are identified “three core elements that remain widely understood to be constitutive of diaspora”

(Brubaker, 2005, p. 5). The first one is any kind of dispersion in space. The second criterion is the orientation to a so-called homeland. “The third constitutive element is boundary-maintenance, which means that diasporas are held together through solidarity and social relationships beyond nation states” (Keusch and Schuster, 2012, p. 23-24).

An extensive transnationalist definition relates to the third constitutive element from above and introduces the term ‘diaspora networks’ as “populations of migrant origin who are scattered among two or more destinations, between which there develop multifarious links involving flows and exchanges of people and resources: between the homeland and destination countries, and among destination countries” (Van Hear *et al.*, 2004, p. 3). As a result, diaspora supports developing interests and experiences among its members.

In view of the facts above, we can mention that ‘diaspora engagement policies’ concept is determined by the increasing role of diaspora and the establishment of various networks between its members. Diaspora is more powerful than ever. These homogeneous groups at a first look, are very complex inside (Spagnul, 2010). In many cases, diaspora may be a launching ramp for other migrants from the origin country (Tölölyan, 1996). ‘Diaspora engagement policies’ are a primary channel through which migrant source states are interacting with their diasporas. Such policies became development strategies of the governments engaging also different non-state actors. Diaspora engagement policies emphasize social status, political or religious beliefs, and the status and conditions in the country of destination.

Diaspora engagement policies, of course, provide emigrants and diaspora members with a set of rights and obligations through citizenship policies, such as voting rights, giving them tools for better socio-economic integration in the country of origin or destination (such as taxation schemes, portability of rights and recognition of qualifications) (Weinar, 2014, p. 6).

The term diaspora engagement is widely used in the policy and scientific context, but there can be an objection that this one does not take the required partnership needed for cooperation between governmental or non-governmental development and diaspora organizations.

Diaspora engagement cuts across government policies and institutions both in countries of origin and destination, going far beyond the migration-development nexus. Contextualizing diaspora engagement in the migration-development nexus, scholars recognize migrants and diaspora as one of the focus areas in the still evolving migration and development policy field.

“It became a general policy trend to promote diaspora engagement” (Frankenhaeuser and Noack, 2015, p. 5).

Scholars have studied the linkages between various policy initiatives in various perspectives. (Gamlen, 2006) distinguishes two diaspora engagement mechanisms: the first for diaspora building (the policies would include extraterritorial citizenship, dual citizenship and extended cultural rights for emigrants and their descendents) and the second preoccupied with binding emigrants to the home country with the net of rights and obligations (emigrants are offered a wide range of socio-economic rights but also obligations (e.g. special tax laws, property laws, voting rights etc.).

This way, diaspora engagement is based on different initiatives and programs on the cooperation level. The practitioners Keusch, M., and Schuster, N. (Keusch and Schuster, 2012) divide many types of activities which could better define the concept: Awareness raising; Diaspora entrepreneurship; Transfer of knowledge; Capacity building; Funding of migration and development initiatives; Hometown association initiatives. These actions are implemented by different stakeholders: international organizations, governmental and non-governmental institutions, and diaspora organizations. They deal migration related issues, facilitating business investment start-ups and small-scale businesses in the country of origin (diaspora entrepreneurship), promoting knowledge transfer, offering capacity building and financial support. “Also, there are activities of so-called hometown associations, which collaborate with established governmental or non-governmental developmental actors and, in general, projects following different goals” (Keusch and Schuster, 2012, p. 23).

The link between diaspora engagement and migration-development nexus has become a topical issue for highly developed and developing countries. The first one usually deal with the large flow of immigrants and refugees to integrate into their societies. The second one are interested in implementing migrant return programs and the issue of remittances. Diaspora engagement and migrant investment are seen as a new and emerging field, able to develop the origin and residence countries. This includes knowledge and skills, superior technology, improved business practices and financial capital of the emerging markets.

In recent years, governments and civil society organizations have been coalescing towards this positive impact, reflected in civil society’s call Action Plan for better models and frameworks that facilitate the engagement of diaspora and migrant associations as entrepreneurs, social

investors, policy advocates and partners in setting and achieving priorities for the full range of human development in countries of origin, heritage and destination (MADE, 2016, p. 13).

Stephan Castles (2008, p. 3), underlines that “development policies cannot reduce international migration, because a higher level of development brings more mobility, not less – at least for a considerable period”. So, it is important to recognise a significant fact: today, nearly all scientists and experts agree that economic and human development does not lead directly to decreased migration. We know that the push factors of migration are various: conflict, political repression, persecution, economic constraints, unemployment and precarious and unsafe working conditions (CONCORD, 2011). However, considering the interdependency of migration and development, it is inadmissible that policymakers still consider development in origin countries being able to change migration from the less developed countries to more developed one.

In this context, diaspora engagement policies can be defined as governmental or non-governmental actions focused on emigrants and their descendants capturing and channelling measures aimed to control remittances, develop migrants return programs, launch symbolic and rhetorical appeals toward diaspora, in order to maintain the emigrants loyalty and linkage with the origin country, harmonizing and overseeing the many ways in which states impact on, and are impacted by diasporas. These policies are not only changing the political landscape and institutional architecture of many states, but also reshaping their basic terms of citizenship and sovereignty.

2. European Union diaspora engagement policy: context, evolution and good practices

This chapter starts with a few questions. Is there a diaspora engagement policy in the EU? How efficient is it? What is the diaspora engagement policy focusing on? (e.g. focusing on return migration, on circular return migration, on keeping economic links). What are the prevailing discourses on diaspora engagement? Is it an issue on political agenda? In general, EU diaspora engagement policy is realizing for two main channels: migration fluxes towards EU and migration fluxes of EU citizens. These one are reflected below.

2.1. EU diaspora engagement policy and migration fluxes towards EU

The European Union’s first comprehensive approach to migration and development manifested in a European Commission Communication published in 2005 titled ‘Migration and Development:

Some concrete orientations’. In this communication, diasporas were recognized as being agents of development in their home countries and concrete measures were proposed (EC, 2005): Facilitating remittances and boosting their contribution to countries of origin’s development; Mitigating the adverse effects of brain drain; Benefiting from circular migration and brain circulation; Recognizing diasporas as agents of development in their home countries. It is considered a step forward and appreciated the inclusion of the broader developmental role of diaspora engagement (Hein de Haas, 2006). In this context, it was approved the Policy Plan on Legal Migration and was followed by the adoption of the “Blue Card (Highly Skilled Workers Directive) in June have called for it to be revised” (Godzimirski *et al.*, 2015, p. 11).

CONCORD, the European NGO federation for relief and development, stated in its report on EU Policy Coherence for Development (CONCORD, 2011, p. 57) that “the current restrictive approach to EU migration policy poses additional obstacles, because of its lack of consideration for development implications and human rights requirements”. Another EU Strategy is the Europe 2020 Strategy. One of its key Strategic goals is to reach 75% employment in the EU, something that can only be achieved by “capitalizing on highly skilled labor” (Keusch and Schuster, 2012, p. 17). The external dimension of the migration and asylum policy for 2007 – 2013 is financed through geographical instruments and a thematic program for the cooperation with third countries in the field of migration and asylum. “The main objective is to support non-EU Member States to better manage migratory flows” (Keusch and Schuster, 2012, p. 19).

Concerning the developmental role of diasporas, the EC has funded studies on the potentials of diaspora organizations as partners in development cooperation. Because of the increasing appreciation of contributions by diaspora organizations, the EC is expected to open the budget from non-state actors and local authorities to include diaspora organizations (EC, 2011b). This would be a great step forward. However, in general, diaspora organizations are often excluded from funding. This may be related to the fact that the EU requires a very strict and sophisticated administrative and financial system. Two main obstacles for diaspora organizations are their lack of capacity and the fact that they often do not have the required legal status (Desiderio and Weinar, 2014).

However, the positive aspect is that the EC has apparently recognized that the funding requirements need to be adjusted to the capacities of diaspora organizations. A successful migrants integration into the society of their new country – in terms of non-discrimination, gainful employment, decent living conditions and participation in all spheres of society – is a great advantage to their developmental efforts.

In practical terms, the EU has not yet taken any steps regarding the engagement of diasporas in the elaboration and adaptation of development policies. In the future, however, the European Parliament will review how these policies will be implemented and reflected in cooperation practices, and NGOs engaged in the field will advocate it (Keusch and Schuster, 2012, p. 18).

A more reliable policy, for instance, would be the acceptance of dual citizenship. This is seen as a possible key for migrants to realize their full potential in areas of development, and to use all aspects of transnationality. “Restrictive residency and citizenship laws in countries of destination may limit diaspora participation in programs if prolonged absence means loss of residency rights” (Laczko, 2008, p. 73). EU Member States predominantly allow dual citizenship. “When they do not, the policy has been conceived with regard to naturalized immigrants rather than country-born emigrants and their descendants, as in the case of Denmark and the Netherlands” (Weinar, 2014, p. 15). “A paradigm shift towards a development-focused, migrant-centered and rights-based approach to migration is critical” (Keusch and Schuster, 2012, p. 20-21). “However, we increasingly see that some states from EU and OECD choose yet another form of policy: support for integration in the receiving country, where citizens emigrate to countries of similar economic standing” (Weinar, 2014, p. 5).

Table 1. Overview of existing institutions, laws and strategies addressing emigration in the EU

Existing mechanisms	Countries
New dedicated Law or a Strategy	BG, DE, ES, HR, LT, PL, RO, SI, SK
Emigration in their Migration Policy Strategies	BG, EE, FI, HR, PL, SI
Return migration policies	BG, HR, CZ, DE, EE, ES, FI, FR, IR, IT, LT, LV, MT, PL, PT, RO, SI, SK
Focus explicitly on the issue of return or the retention of youth	LT, MT, SI, SK

Source: Weinar (2014), p. 11

The short overview of the table above (see Table 1) provides several interesting insights. Nine out of 28 MS have introduced a new dedicated Law (recent or recently amended) or a Strategy (BG, DE, ES, HR, LT, PL, RO, SI, SK) on the topic. Six out of 28 include emigration in their Migration Policy Strategies (BG, EE, FI, HR, PL, SI), linking effects of emigration to possible attenuation through immigration. Eighteen out of 28 propose return migration policies (both of ethnic emigrants and of ethnic minorities) seen as a response to demographic crisis and as an economic asset. Only

four out of 28 Member States focus explicitly on the issue of return or the retention of youth (LT, MT, SI, SK). The mapping of EU responses to emigration on national level reveals three main categories of actions: traditional diaspora building policies; diaspora engagement policies; and active emigration policies (Agunias and Newland, 2012).

The table below (see Table 2) identifies three diaspora support models employed by European development agencies to support development contributions by diaspora organizations: general co-funding schemes for development NGOs, special diaspora initiatives, and support to networks. The three models often co-exist and their activities may overlap. As the table shows, capacity building activities and matching fund schemes are the two most common ways of supporting diaspora organizations.

Table 2. Development aid agencies' support to diaspora organizations (DOs)

Principle	Characteristics	Examples
Mainstreaming	<ul style="list-style-type: none"> - Access to matching fund schemes on equal terms with other development NGOs - Capacity building 	<ul style="list-style-type: none"> - Civil Society in Development (Danida), 1996- - Oxfam Novib Linkis (Dutch Ministry of Foreign Affairs), 2004-2011
Special diaspora initiatives	<ul style="list-style-type: none"> - Access to matching fund schemes for DOs only - Capacity building 	<ul style="list-style-type: none"> - The Diaspora Programme (Danida), 2010-2015 - Pilot Project Pakistan (NORAD), 2008- 2010
Networks	<ul style="list-style-type: none"> - Establish DO networks and platforms - Facilitate collaboration between DOs - Facilitate collaboration between DOs and other development NGOs - Capacity building 	<ul style="list-style-type: none"> - EADPD5 (European Commission (EC) with the Swiss Agency for Development and Cooperation (SDC), Dutch MFA, and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)), 2010-2013; (SDC), 2014-2016

Source: Kleist (2014), p. 59

2.2. EU diaspora engagement policy and migration fluxes of EU citizens

There are basically four categories of emigrants from the EU (permanent and temporary) captured in the current statistics of the Member States. The first category are Member State nationals with no immigrant background with a high return rate (especially for the UK, France and Denmark). The second category are EU nationals with an immigrant background, extremely difficult to capture in administrative statistics both at origin and destination (e.g. highly-skilled French-Algerians to Canada). The third group of emigrants is non-EU nationals. They constitute a very high percentage among emigrants from EU. In the case of Austria it is around 70% of the outflow; Denmark, Germany – 80%; Spain, France, and the Netherlands – ca. 65%. The fourth group is EU nationals of national

minorities. This is a very special case of emigrants originating mainly from the EU, those who are actively encouraged to emigrate and those members of minorities, who emigrate for better economic opportunities abroad (Weinar, 2014, p. 9).

The practice analyse shows that traditional diaspora engagement building policies focus on catering for the cultural needs of the communities of the same cultural background abroad, such as language schools, national curricula schools or active cultural programs for diaspora. Only Austria, Denmark and Luxembourg have no government strategy, nor program focusing on emigrants and the cultural/linguistic support for them. There is a difference in approach. Central European Member States maintain embassy schools, as well as curricula for national minorities abroad, e.g. Lithuanian school programs in Poland (Newland and Tanaka, 2011).

The Northern Member States tend to mix cultural diplomacy with diaspora outreach: the prime example is the network of French or British schools abroad offering full curricula. Germany is the most active state in this field, offering over 870 language and cultural programs in local schools abroad. A separate category of catering for diaspora needs are policies focusing on vulnerable emigrants. Such policies had been the centre of Spanish and Portuguese diaspora policies up until the crisis. They addressed the needs of pensioners and emigrants in extreme poverty. Italy also runs a program for its retired diaspora abroad that boils down to giving information on possibilities of getting the Italian pension rights and of a return to Italy for old age (Weinar, 2014).

Following the new trends in diaspora policies world-wide for countries with a strong global entrepreneurial outreach, like the UK and the Netherlands, the issue of emigration of human capital has risen higher on the political agenda in the last ten years. The UK is the top EU sending country to non-EU destinations and the Netherlands is also among the top ten sending EU states. This has to do with the economic engagement of British and Dutch companies in many countries around the world, but is also a question of specific categories of migrants: Dutch agrarian entrepreneurs tend to emigrate to places where they can invest in agricultural production, hence a growing Dutch community in Australia. In 2006, the UK authorities launched a research program “The Global Brit” (Finch *et al.*, 2010) in order to analyse the phenomenon of British emigration flows, focusing on the potential of emigration for strengthening British economic clout abroad. The two views reflected the actual ideology around emigration: as the result of the imperial experience, the British traditionally see emigration as part and parcel of building global economic and political power (Van Hear, 2004).

France is an interesting case of a country which does not acknowledge emigration. The links between France and its citizens abroad is stable and the distance only temporary. France is a very good example of active diaspora engagement policy entrepreneur. French institutions actively link

with French entrepreneurs abroad and French communities are well organized around a dense network of French schools and Institutes of Culture. As the French do not emigrate but are merely mobile, State policies provide this category of people with special social security services and special bank services. The France-Quebec Memorandum of Understanding on Recognition of Professional Qualifications of 2008 covers almost 100 professions, trades and functions and makes it almost automatically possible for France-educated workers to practice their occupational skills in Quebec (Keusch and Schuster, 2012).

The traditional emigration countries of the European Union have different approaches to diaspora engagement: countries that experienced increased emigration flows following the EU accession, like Poland and the Baltic States, and countries that experienced more intense emigration after the euro-zone crisis, like Portugal and Ireland. In Poland, the strategy towards emigration was based on renegotiating tax and portability of social rights agreements with the main countries of destination. There is no active return policy, because of legal constraints: the Polish Constitution does not allow a different set of socio-economic or political rights to citizens regardless of their place of residence. (Godzimirski *et al.*, 2015)

The Baltic States, on the contrary, presented ambitious strategies that focus on diaspora engagement. Ireland has been to the date the only one that has actually tried to engage the diaspora. Already between 2000 and 2002, Ireland ran the “Jobs Ireland Program”, informing Irish emigrants and their descendants of the employment opportunities in Ireland. This led to the establishment of the Global Irish Economic Forum in 2009. One of the proposals that came from the Forum was the establishment of a ‘Global Irish Network’, which today comprises over 350 of the most senior Irish and Irish connected business people based in almost 40 countries and the creation of the “Gathering”, by attracting people from the Irish diaspora to visit the country during 2013 (Weinar, 2014).

3. Challenges for the European diaspora engagement policy in the context of changing realities

The academic Milton J. Esman (Esman, 2009) listed nine diaspora related issues that may cause tensions in relations between the sending and receiving countries, as follow: Maintenance of transnational existence by some members of diaspora groups; Diasporas’ attempts to influence policies in their countries of origin; Diasporas’ attempts to influence their new host countries’ policies, or policies of international organizations to act in favour or in opposition to the interests of the current government of their home countries; Home governments’ attempts to use their diasporas to support their strategic or economic goals; Diasporas may seek protection from their home

governments; A host government may call on a resident diaspora to support its strategic or economic goals; Diasporas may contribute to the development of their former homeland; The home government may request the host government to restrain hostile actions by members of the diaspora; Diasporas may be involved in various transnational illegal activities, such as terrorism or organized crime.

A recently published study on the “global race for talent” (Münz, 2014) discussed challenges related to European policy on labour migration, concluding that the EU has to implement policies that will help to organise political majorities in support of more proactive migration policy that will make Europe more attractive for mobile people with talent and skills, and help the Union to move away from unilateral migration policies and towards negotiated win-win solutions. The ongoing debate on migration, fuelled by the crisis in the south and the need to address intra-EU tensions, resulted in various proposals on how the new European Commission should address the issue of migration and diaspora engagement.

An important issue discussed was the question of border management and the EU’s ability to cope with growing numbers of legal and illegal migrants and asylum seekers, as well as the question of intra-EU burden sharing. (Collett, 2015) The EU should take some practical steps for solving controversial issues, such as welfare tourism and access to those social benefits granted on a non-discriminatory basis to citizens of the Member State and to long-term residents, and not to short-term visitors even if they come from within the EU. The Commission and Member States should also adopt a more flexible approach to labour migrants from third countries in order to fill the existing and future gaps on their labour markets.

On 23 April 2015 the European Council asked Member States to take action to save lives and to step up EU activity in the field of migration. On 13 May 2015, the European Commission presented its European Agenda on Migration (European Commission, 2015) which sets out a comprehensive policy that will improve the management of migration and diaspora engagement. It was published a set of documents by the European Commission on 13 May 2015. These one represent an immediate response to the situation developing in the South.

In this context European Agenda on Migration emphasized the measures to be taken in the short term, and the good steps for EU to better manage migration and diaspora engagement policy. As response, the EU had to focus on saving lives responding to high volumes of arrivals through a policy of relocation within the EU, targeting criminal networks, adopting a common approach to protection for misplaced persons. The close cooperation with third countries became necessary to tackle migration flow, and finally using various EU tools in order to help frontline Member States—such as Italy and Hungary—to deal with this migratory challenge.

If those immediate actions are to help the EU cope with the current situation, the adoption of four new pillars of migration policy may have greater impact on the future of migration to the EU. Those four pillars were to reduce the incentives for irregular migration, to improve border management in order to save lives and secure borders, to work towards a strong common asylum policy through a full and coherent implementation of the Common European Asylum System, and to develop a new policy on legal migration that would help the EU deal with its demographic decline and labour shortages while “maximizing the benefits of migration policy to individuals and countries of origin, including the facilitation of cheaper, faster and safer remittance transfers” (Godzimirski, *et. al.*, 2015, p. 13-14).

The current focus on European ‘foreign fighters’ who have joined the so-called Islamic State in Syria has spotlighted the malaise and disaffection felt by many young Europeans of foreign descent. Government and business recruitment policies are being gradually changed to increase the employment of migrants. For their part, migrant groups are becoming significantly more active in demanding equal rights as fully fledged citizens, organizing themselves into pressure groups and emerging as influential politicians, entrepreneurs and cultural icons. Developing a new ‘European immigration story’ requires the joint efforts of politicians and policymakers, scholars as well as thought and religious leaders, civil society organizations, business representatives and the media (Pasikowska-Schnass, 2017).

Europeans are not ready to accept more international migrants. As result, appeared restrictive political agendas mostly driven by the fact that the current debate on migration in Europe seems to be completely dominated by the discussion on how to confront with great numbers of forced migrants who try to reach Europe from various conflict zones, and with an even greater number of economic migrants who are attracted by the promise of a better life and choose to risk their lives and challenge the existing EU migration regime to reach their destinations. Because of many migrants that use various legal and not so legal channels to reach Europe, the situation in the Mediterranean is a good example of how those flows suggests the need for a common EU migration policy and challenge the EU’s cohesion, solidarity and even its security policy.

Some Member States, such as France, Sweden, Germany, the UK and the Netherlands, have to cope with existing social and migratory tensions caused by the huge inflow of migrants in previous decades, and by apparent problems with the integration of some migrant communities showing signs of radicalization. Other Member States, especially those receiving great numbers of both external migrants and mobile EU citizens, suggest that the whole policy field has to be reformed by the EU and want, like the UK, to change the agreed rules of the intra and extra-EU migratory game. Other

Member States face challenges caused by the outflow of migrants moving to other parts of Europe, and have to devise and implement migration policies that will help them address their specific problems, such as the question of return migration or the need to fill the demographic gap caused by migration and deal with negative demographic trends, which is, for instance, the case of Poland.

The ongoing debate and tensions between Member States and the EU, caused by plans for the resettlement of Syrian refugees and the relocation of refugees reaching southern part of Europe, is a very good illustration of how various EU Member States deal with the issue and oppose the “EU as a whole” approach to solving acute migration-related problems. The tensions growing between Member States, sending tens of thousands of mobile EU citizens, and those receiving them, illustrates how the questions of mobility and intra-EU free movement have become contentious issues, putting the need to reform the whole field high on the political agenda (Godzimirski, *et. al.*, 2015, p. 12).

Most countries’ diaspora policies are concerned not only with the negative effects of emigration, but focus on opportunities and relations between the diaspora and economic development. An example is Poland and its need to improve cooperation with the Polish diaspora in Ukraine and the East, and with new and old Polish diasporas in the West. Since 2012, cooperation with Poland has been administered by the Ministry of Foreign Affairs. Annual funding is given to projects on cooperation with Poland and mobile Poles, and funding has been allocated according to thematic priorities set by the Polish authorities in dialogue with representatives of various diaspora groups. The main task identified in the strategy is to help new migrants maintain strong ties with Poland and to make their return more likely if Poland undertakes positive economic and social changes, or exploits the worsening economic and social situation in countries hosting new Polish diasporas (Mayer, 2015).

Over the last five years, diaspora-related questions have topped the Norwegian policy agenda. The terrorist attack on 22 July 2011 was driven mostly by hatred of migrants and of the migration policy conducted by the previous government and the Labor Party, whose young elite was targeted. The so-called Norwegian Syria warriors, young people going to Syria to join the Islamic State, have put the role of ethnic and religious diasporas in Norway on the country’s security agenda, as witnessed by the newly-released risk assessments presented by Police Security Service (PST). This document defines the growth of religious fundamentalism in diaspora groups in Norway and elsewhere as one of the key security challenges. The ongoing discussion on the wisdom of allowing 8,000 Syrian refugees to settle in Norway over the next three years is related to the diaspora question, as their potential arrival is presented as posing not only an economic challenge, but also a security and societal one (Godzimirski, *et. al.*, 2015).

In the multi-faceted challenge of integrating new arrivals, cultural aspects are also part of the solution. According to the International Organization for Migration (IOM), over a million persons have arrived in Europe since January 2015, many of them fleeing conflict zones in Syria and Iraq. Their integration into host societies may pose difficulties due to the scale of the phenomenon. It depends also on the level of preparedness of local communities for the process. According to Article 79(4) of the Treaty on the Functioning of the European Union (TFEU), integration policy is primarily a national competence. Recommended actions in this area, are shared forums, inter-cultural dialogue and education about immigrant cultures, which enhance interaction between immigrants and Member State citizens and promote mutual understanding. (Pasikowska-Schnass, 2017).

The Europe for Citizens program also offers funding for cultural integration projects involving both migrant and host populations, such as the City Ghettos of Today project for countering the stigmatization of migrants. The Creative Europe program has allocated €2.5 million for 12 projects on refugee cultural integration starting in September 2016. Theatre, music and storytelling productions running for a maximum 24 months will allow refugees to express themselves, EU citizens and refugees to get to know their respective cultures, and co-create. Available EU, national or private funding is listed on the European Commission's website.

Regulation (EU) No 516/2014 establishing the Asylum, Migration and Integration Fund provides support for Member States' action: over the 2014-2020 period, €385 million of its €3.1 billion budget is assigned to funding grants and other direct actions. The fund will provide €9.5 million in 2017 for integration of third-country nationals projects, including for their participation in cultural life. (Pasikowska-Schnass, 2017, p.2).

The Manual of artistic tools for migrants 'Art of adaptation', published in 2012, (Kondoylanni, 2012) resulted from the Ariadne project, supported by the EU's Lifelong Learning program researched the role of art in the adaptation process, analysed positive impacts of art and creative activities on the ability to adapt, to change, and as a therapeutic tool to address trauma in one's personal development. This approach mirrors the needs of refugees who flee war zones and whose cultural identity has been undermined. In June 2016, the Commission held a structured dialogue with organizations working at local level in the area of culture, on the role of culture in promoting the inclusion of refugees and migrants.

The report underlines establishing a new EU funding program in rural and remote areas, especially for local authorities, and to create 'spaces of welcome' for refugees. Such safe spaces

projects engage local and refugee communities, promoting identity issues and inclusion. The EU will help build bridges between people and strengthen democracy by supporting art and culture projects involving the whole community of citizens and migrants. It stresses the need for a more developed cultural strategy to an open and equal dialogue between arrivals and their host countries, so that both communities share the goal of cultural and social integration.

4. Discussions on the main hypotheses and findings

Changing realities became one of the main challenges facing national and international actors and leads to a reassessment of concepts and action plans. Rethinking diaspora concept revealed the importance of diaspora engagement policy which may take various institutional forms being managed at different governmental levels. The study emphasized that some new trends in diaspora policies world-wide are attributed to the vulnerable groups of emigrants' emergence. This fact should determine EU member states to focus more on outflows of human capital and on engaging them in development strategies. So, separate categories of catering for diaspora needs are policies focusing on vulnerable emigrants. Their integration into host societies may pose difficulties due to the scale of the phenomenon. Such policies address to the needs of pensioners and emigrants in extreme poverty.

In the same time, the traditional emigration countries of the European Union have different approaches to diaspora engagement, determined by two mechanisms: diaspora building and binding emigrants to the home country with the net of rights and obligations. Following the new trends in diaspora policies world-wide, diaspora engagement policy entrepreneur is practiced into the high developed countries through some professional agreements. Also, it is determined by their big companies engagement for investments, building an economic and political power. Some member states tend to mix cultural diplomacy with diaspora outreach, language and cultural programs in local schools abroad. For others it is based on renegotiating tax and portability of social rights agreements with the main countries of destination. Here there is no active return policy, because of legal constraints. An important instrument is informing emigrants and their descendants of the employment opportunities, establishing networks, in order to attract people from the diaspora to visit the country.

The focus is on catering for the cultural needs of the communities of the same cultural background abroad, such as language schools, national curricula schools or active cultural programs for diaspora. The aim is to held a structured dialogue with organizations working at local level in the area of culture, on the role of culture in promoting the inclusion of refugees and migrants. Safe spaces projects may engage local and refugee communities, promoting identity issues and inclusion. a more

developed cultural strategy to an open and equal dialogue between arrivals and their host countries in order to share the goal of cultural and social integration. Also the cooperation with third countries in the field of migration and asylum may reveal the main EU objective to support its non-member states to better manage migratory flows.

The challenges imposed by changing realities are: establishing a new EU funding program in rural and remote areas, especially for local authorities; maintaining the legal status of diaspora organisations; the acceptance of dual citizenship; refugees' integration into the member-states societies; the EU has to implement policies that will help to organise political majorities in support of more proactive migration policy that will make Europe more attractive for mobile people with talent and skills, and help the Union to move away from unilateral migration policies and towards negotiated win-win solutions; saving lives responding to high volumes of arrivals through a policy of relocation within the EU, targeting criminal networks, adopting a common approach to protection for misplaced persons; the close cooperation with third countries.

Development cooperation equally involving diasporas, governmental and non-governmental development organizations have the potential to address the global social inequality made visible through migration flows. As a result, migrants and the communities they come from should be actively involved in defining the development of their countries of origin (Castles, 2008). This implies that it is crucial to adopt a broad concept of development in which the wellbeing of a populace is critical. In addition, experiences made by organizations that have existed over several decades are invaluable resources for the development of new initiatives and activities and should be taken into account.

Conclusions

“The message of a new dialogue on diaspora engagement into changing realities should be clear: integration is a two-way street, requiring adjustment efforts by migrants and host societies” (Mayer *et al.*, 2015, p. 6). Migration governance should thus work in a continuum of various forms of mobility and should be redefined. The individual EU Member States have very well-grounded strategies and policies towards emigration. From the almost anti-emigration stance of Denmark and the Netherlands, to active and nurturing policies of Ireland, France and Germany. Following division between diaspora policies (focusing on relating ties and supporting performance of individuals and communities) and emigration policies (regulating mobility), we can see that basically all Member

States are active in these areas. “However, there is no EU community of practice that has emerged around the emigration issue (as opposed to the immigration issue)” (Weinar, 2014, p. 16).

The first step for a fruitful cooperation is the recognition and appreciation of the developmental activities of diaspora organizations. Therefore, it is essential to realize the current existing initiatives of migrants and diaspora. Established governmental and non-governmental development organizations should adapt their approaches and structures in order to meet the needs and capacities of diaspora organizations. They should be mobilized to engage with diaspora in development cooperation and to learn from field experiences. Projects and programs should be offered by linking into existing diaspora-led initiatives. Also, diaspora organizations should be encouraged to initiate cooperation with development organizations and governmental actors.

The treatment of diaspora organisations as non-professional development players has led to mistrust among diaspora organisations and consequently to a lack of interest in cooperating with established governmental or non-governmental development actors. Patronising diaspora organisations does not foster cooperation (de Haas, 2006). Furthermore, migrants should not be made responsible for the development of their countries of origin. In other words, the engagement of diasporas should never be a substitute for public intervention nor become a matter of course.

We could expect that the EU Member States should have taken a deeper look at the outflows of human capital and that they might focus on engaging emigrants in development strategies. Diasporas engage in different fields of interest and in manifold ways. These range from philanthropy, development and humanitarian assistance, political debates and civil society engagement, know-how transfer, trade and tourism, remittances, investments and business creation. Consequently, the various ways of promoting these contributions span many different policy areas.

At last, there are four areas which are important for any kind of project or activity on diaspora engagement for development. The first and second areas getting to know the diaspora and supporting states in developing tailored diaspora engagement policies and approaches form the foundation for successful diaspora engagement policies by creating the evidence-base, and the political and institutional framework. In the third and fourth areas, empowering the diaspora and creating spaces for government-diaspora interaction, we share our experiences of working directly with the main stakeholder, the diaspora.

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Negotiating the Transatlantic deal: focus on the EU's domestic constraints

Alina ALEXOAEI*, Valentin COJANU**

Abstract

The paper focuses on emphasising the role that internal constraints and domestic political events play in designing the strategic behaviour and position of the EU in the negotiation process of The Transatlantic Trade and Investment Partnership - TTIP. The paper pursues a three-pronged approach in order to: (1) identify and define the set of domestic constraints, (2) assess their influence on EU's strategic position, and (3) suggest both available and desirable future courses of action to improve the negotiation outcome. The results should inform the approach towards the general structure of negotiations to be accomplished through a multi-level analysis: starting from a broad EU perspective on the deal, complemented by a disaggregated domestic level perspective that will emphasize EU members' position and interests in the agreement, as well as an industry/sector-based implications of each item on the negotiations agenda.

Keywords: TTIP, negotiations, domestic factors, strategic game, European Union

Introduction

The case of domestic constraints

Scholars of international relations often analyse trade negotiations as part of a two-level game (e.g. Evans *et al.*, 1993), involving a mix of inter-state and domestic politics (Putnam, 1988). Here is the typical approach: “International trade relations are not determined by a sole national executive, acting autonomously and isolated from the pressures of domestic political interests when choosing tariff levels, health and safety rules and regulations, or other elements of trade policy. Instead, trade policy is determined by the interplay of domestic economic interests, domestic political institutions, and the information that is available to all involved players” (Aklin *et al.*, 2015, p.1).

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In this paper, we single out the question of domestic politics, whose specific contribution to the outcome of trade negotiations have been emphasized by various studies (e.g. O'Halloran 1994; Verdier 1994; Downs and Rocke 1995; Peterson, 1996; Milner, 1997). Research has focused not only on justifying that domestic politics matters, but also on determining who the key players are and what their interests consist of (Aklin *et al.*, 2015, p.1)

For TTIP negotiations, the progress towards a final agreement has been influenced by three factors: geopolitical shifts, an economic slowdown in emerging markets, and domestic political and institutional constraints (Roy, 2015, p. 97). This analysis focuses on the domestic side of this multidimensional two-level game by looking at the EU's internal constraints. Under a constant stream of influences originating mainly from the European Parliament, the governments of various European states, and by civil society organizations, the negotiators have attempted to deliver the right arguments to "sell" the agreement domestically and make progress with their agenda bilaterally.

The international relations (IR) literature assumes that the means to conjugate domestic policy objectives and trade liberalization is through rule harmonization (Koenig-Archibugi, 2010, p. 416) and this has important implications on the preferences of societal actors – firms, workers and consumers. While in the case of import-competing firms the preference for protection is clear, in the case of export-oriented firms (traditionally supporters of liberalization) the perspective would depend on which party's rule will get adopted eventually. Businesses would obviously gain from dealing with a single rule, but regulatory coordination may impose adjustment costs if the rule adopted is the other party's one. Consequently, exporters' support may be more conditional than expected in a plain liberalization game (Drezner 2007, pp. 45-47). Second, the politics of regulatory cooperation is also influenced by the role and preferences of citizens. In traditional trade politics' optic the focus lies on individuals' preferences reflected in their interests as employees (Mansfield and Mutz, 2009, p. 427). As for the consumer's perspective, while liberalization tends to apparently bring about overall benefits (lower prices and/or a wider variety of choices), regulatory coordination potentially brings costs, for example in the form of less safe or more environmentally harmful products. That is why rule harmonization negotiations imply greater engagement of consumer groups (Young and Peterson, 2014).

In the case of TTIP, given the low tariff rates and the differences in regulatory approaches, the central issue of negotiations remains precisely regulatory coordination through the adoption of a common rule by both parties.

The context of negotiations

Negotiations over the Transatlantic Trade and Investment Partnership (TTIP) were initiated in July 2013 by the former U.S. President Barack Obama, the President of the European Council Herman Van Rompuy, the European Commission President Jose Manuel Barroso and UK's Prime Minister David Cameron. The launching statement made at the EU–US joint press conference of the G8 summit put a great emphasis on the high stakes of the negotiations goals. In Barroso's words:

Today is a special day for the relationship between the EU and the US. Very frankly, three years ago very few would have bet that today we will be in the position to launch negotiations on an ambitious EU-US free trade agreement. (...) it will be the start of a joint undertaking of real strategic importance (...) part of our overall agenda for growth and jobs to both sides of the Atlantic by boosting trade and investment (...) huge economic benefits are expected from reducing red tape and avoiding divergent regulations for the future (G8 Summit press conference/Lough Erne, 17 June 2013).

An agreement between the world's two of the biggest economies that together accounted in 2013 when negotiations were initiated for about 46% of the global output, 40% of world GDP, almost 32% of global trade, and around 20% of global foreign direct investments (Babarinde and Wright, 2015, p. 2) would create the largest and most comprehensive bilateral preferential trade agreement to date. The economic benefits for both parties are expected to derive from tariffs removal, but especially from reducing red tape and implementing more favourable investment regulations. Since tariffs placed on Transatlantic trade transactions are already below 3% on average, TTIP talks focus on deeper integration, non-tariff barriers to trade and harmonizing regulations. This would make it easier for firms to export goods and services, would eliminate additional costs of producing at different standards for the EU and US markets, and would allow consumers to benefit from lower prices and a wider variety of goods.

A study carried out for the European Commission estimated that TTIP could bring benefits to the EU economy worth an additional 0.5% of GDP every year after 2030 (€119 billion a year) and €95 billion a year for the US. Also EU's exports to the US would increase by 28%, equivalent to an additional €187 billion and that total exports would increase 6% in the EU and 8% in the US (Francois *et al.*, 2013, p. 7). A more recent in-depth quantitative analysis on the impact of TTIP forecasts that it would boost the increase of national income within the EU by 0.3% and wages by 0.5% for both

high and lower-skilled workers. EU exports to the US are expected to increase by 27% and US exports to the EU by 35.7%. (Ecorys 2017, p.17)

Reasons supporting the free trade agreement are beyond the economic benefits both parties expect to register. Strong geopolitical factors bind the two parts to share common goals and approaches: first, given the size of the two parties, an agreement on key trade and investment issues could set the rules on global markets in accordance to the US and EU interests; second, considering the failure of the latest Doha Round and the snail's pace progress registered in multilateral trade liberalization under the WTO, TTIP can offer the covenanters an alternative to boost economic growth through 'extended regionalism'; third, a successful deal could limit the rising geopolitical influence of emerging economies like China, India, and Brazil and of other regional blocks (e.g. ASEAN). According to an EU Commission report, by 2025 the EU will no longer be the first world exporter as its exports' share will decrease from 39% to 32% and Asia's share will increase from 29% to 35% of world trade. Furthermore, "the centre of gravity of world production will also move towards Asia that will reach over 30% of the world's GDP and would surpass that of the EU estimated at slightly more than 20%" (European Commission, 2009). EU's Chief TTIP Negotiator has referred explicitly to these objectives:

The current economic climate requires us to join forces and to do more with less. More importantly, in doing so, we will remain strong global players who set the standards for the 21st century. It is also a powerful demonstration of our determination to shape an open and rules-based world. We want TTIP also to be a tool which would help us shape globalisation by agreeing on high standards on environment, labour or consumer protection (New York, October 2016, Press conference of the 15th round of negotiations).

Additionally, the Eurozone crisis and the slowdown in the European economy, the slow U.S. economic recovery following the global financial crisis, along with increased economic competition from emerging markets weigh heavily on concluding the deal. With the estimation that negotiations will be concluded within two years, after 15 rounds that were carried until October 2016, "negotiations with the United States have de facto failed, even though nobody is really admitting it." (Sigmar Gabriel, German Vice-Chancellor, August 2016). In March 2017, the European Commission released an update on the state of play of the negotiations noting that good progress had been made in all areas of negotiation but still no formal engagement on TTIP was reached with the new US Administration, and the negotiations are on hold.

1. Agenda setting

The negotiation *Agenda* as released by the European Commission was structured in three broad areas: **Market access, Regulatory Cooperation, and Trade rules**. Negotiations have been in-depth and specialized, as breakout sessions have concentrated on 24 thematic issues as presented below in Table 1.

The **market access** area addresses the removal of nearly all customs duties on goods and restrictions on services, enables better access to public sector procurement to allow companies on both sides of the Atlantic to bid for public tenders, and aims for a more favourable FDI environment.

Table 1. Market access: negotiation topics

Chapters	Specific Objectives
1.1 Trade in goods and customs duties	<ul style="list-style-type: none"> • remove customs duties and other non tariff barriers to trade • provide the same treatment for the goods of the other Party as that provided to domestically manufactured goods (national treatment).
<ul style="list-style-type: none"> ○ <i>Agriculture</i> ○ <i>Wine & spirits</i> ○ <i>Non tariff issues</i> 	
1.2. Services	<ul style="list-style-type: none"> • provide national treatment to services companies
1.3. Public procurement	<ul style="list-style-type: none"> • agree on rules which will ensure companies are not discriminated when tendering for public contracts • maximise transparency in tendering for public contracts
1.4. Rules of origin (RO)	<ul style="list-style-type: none"> • develop common rules to determine where a product is produced • simplify rules of origin and eliminate unnecessary obstacles • consider future trends in production and encourage innovation

Source: authors' compilation based on European Commission Factsheets

The second negotiating area deals with harmonizing the **regulatory framework** by eliminating red tape and bureaucratic duplications and redundancies on both markets and by improving transparency. Although EU and US regulations are in many cases quite similar the means to be fulfilled are sometimes different. Consequently, the agreement aims to help EU and US regulators collaborate better when setting new regulations and recognise each other's regulations when they provide equivalent protection from both a horizontal and a sectoral view with rules governing specific industries.

Table 2. Regulatory Cooperation: negotiation topics

Chapters	Specific Objectives
2.1 Regulatory Cooperation	<ul style="list-style-type: none"> • increase product requirements' similarity • promote international cooperation on regulatory issues
2.2 Technical barriers to trade (TBT)	<ul style="list-style-type: none"> • reduce or eliminate conflicting, redundant and burdensome technical requirements • facilitate access to information on applicable rules • use international standards (ISO)

2.3 Food safety and animal and plant health (SPS)	<ul style="list-style-type: none"> • improve consistency, predictability and transparency • provide clear timelines for approving imports, pragmatic and speedy procedures and decisions on regulations • ensure that SPS measures don't create unnecessary trade barriers
2.4 Specific industries	<ul style="list-style-type: none"> • enhance exchanges on technical and scientific issues by making available the most up to date knowledge
<i>Chemicals</i>	<ul style="list-style-type: none"> • promote the use of international standards (GHS) for classifying and labelling substances
○ <i>Cosmetics</i>	<ul style="list-style-type: none"> • convergence of data requirements and scientific safety assessment methods • work together on labelling and market surveillance • create a basis for jointly developing regulations on new areas not yet fully regulated. • collaboration in good manufacturing practices and mutual recognition of inspection results
○ <i>Engineering</i>	<ul style="list-style-type: none"> • foster the use of common and/or international standards (i.e. ISO, IEC, ITU) • promote cooperation on enforcement/market surveillance • recognise each other's Quality Management Systems (QMS) audits • converge in identifying and tracing medical devices systems (Unique Device Identification)
○ <i>Medical devices</i>	<ul style="list-style-type: none"> • convergence of marketing submissions models (Regulated Product Submission) • harmonise forms for getting new medical devices approved
○ <i>Pesticides</i>	<ul style="list-style-type: none"> • mutual recognition of pre-export checks • agree to share information from studies on niche crops • speed up approvals for using pesticides within strict limits
○ <i>ITC</i>	<ul style="list-style-type: none"> • increase cooperation on e-labelling • set common principles for certifying ICT products
○ <i>Pharmaceutical</i>	<ul style="list-style-type: none"> • harmonize regulations concerning medicines' inspections, approvals and innovation
○ <i>Textiles</i>	<ul style="list-style-type: none"> • work together on textiles and clothes labelling • mutual recognition of care instruction symbols and agree on names for new fibres • work together on product safety and consumer protection, standards and testing methods.
○ <i>Vehicles</i>	<ul style="list-style-type: none"> • agree where EU and US technical standards match • agree to harmonise certain regulations, especially for new technologies • coordinate plans for new regulations and for research into new technologies.

Source: authors' compilation based on European Commission Factsheets

The **Trade rules** section focuses on both sensitive and controversial aspects of the Agenda such as sustainable development goals, non-discriminatory and free access to natural resources, regulating investments and competition aspects, intellectual property rights & geographical indications. The table below presents the negotiated chapters along with their main objectives.

Table 3. Trade related Rules: negotiation topics

Chapters	Specific Objectives
3.1 Sustainable development	<ul style="list-style-type: none"> • untap trade's potential to advance sustainable development objectives (sustainably managed natural resources, green goods and services) • uphold environmental and labour protection objectives
3.2 Energy & raw materials	<ul style="list-style-type: none"> • secure more open, competition-friendly, sustainable access to energy and raw materials • promote the development of green energy
3.3 Customs & Trade facilitation	<ul style="list-style-type: none"> • agree on simple, effective rules that are easy to understand and follow • agree on only one set of forms for companies to fill in, at either the EU or US border • ensure that customs procedures are transparent and accessible
3.4 Small and Medium Enterprises (SMEs)	<ul style="list-style-type: none"> • develop tools and resources related to IPR to improve SMEs competitiveness • develop ways to facilitate SMEs' access to information on regulations and market opportunities

	<ul style="list-style-type: none"> • exchange good regulatory practices • explore opportunities for linkages and exchanges between parties • entrepreneurial programs
3.5 Investment	<ul style="list-style-type: none"> • agree not to take control of assets such as through nationalisation without paying compensation • allow foreign investors to transfer funds related to their investments to and from their home country • protect foreign investors against being unfairly treated • address concerns about the lack of legitimacy and transparency in the existing system for resolving disputes between governments and foreign investors (ISDS)
3.6 Competition	<ul style="list-style-type: none"> • set up a new Investment Court System (ICS) • agree on rules as to stop firms colluding to fix prices or abusing market power • ensure private companies can compete with state owned ones on equal terms • increase transparency of the subsidising process
3.7 Intellectual Property Rights & geographical indications	<ul style="list-style-type: none"> • enforce IPR rules in a balanced way • encourage investment in R&D that produces new ideas, and branding of products and services. • bind commitments on geographical indications (GIs) and aspects of copyright
3.8 Government-to-government dispute settlement	<ul style="list-style-type: none"> • decide in advance which arbitrators are eligible to sit on panels • develop a more transparent method for solving disputes • establish an effective and efficient mechanism for avoiding and settling any dispute between the Parties concerning the Agreement

Source: authors 'compilation based on European Commission Factsheets available at

3. Controlling factors within the EU

Apart from divergent EU-US positions on sensitive negotiation aspects, a topic which falls beyond the scope of this paper, talks have been postponed mostly due **to a mix of internal socio-political factors** that have made it impossible for making further steps towards a final agreement. By analysing the social, political and economic context and by looking at the actors that have voiced their opinion towards the agreement at the EU level, we have identified *seven major domestic factors* that explain the evolution of the negotiation process.

(1) The TTIP negotiations' evolution is essentially a story of a **multipolar European political perspective**. The EU-USA negotiations have once more exposed EU member states' varying political and economic vision towards trade promotion or protection depending on their comparative advantage, historical background, or domestic socio-economic and political context. EU member-states' divergent opinions have translated into a negotiation process with different speeds and multiple breakdowns. Positions adopted have been either **highly supportive** for concluding the deal and emphasising the positive impact (e.g. Germany, UK, Italy, Poland, Portugal, Czech Republic, Croatia, Denmark), or **focusing on the drawbacks** of the agreement and of the risky concessions made by the parties (e.g. France, Austria, Spain, Greece). Most of the countries have asserted a **nuanced attitude** expressed by unclear positions or by having few amendments but supporting the deal (e.g. Slovenia,

Hungary, Belgium, Netherlands (Dutch voters want a referendum on TTIP, throwing into doubt the future of the US-EU free trade deal).

According to a study conducted in 2014 by the European Commission about public opinion on TTIP, a large majority of the EU-28 have responded favourably (58%) to the possibility of concluding the deal. The most in favour are from Lithuania (79 %), Malta (75 %), the Netherlands (74 %), Poland (73%), and the United Kingdom (65 %), while the least favourable are from Austria (53 %), Luxemburg (43 %), Germany (41 %), and France (33 %) (European Commission. 2014).

On the objector side, **Austria** and **France** are most vocal in areas where the EU seems to have failed to make any inroads into the American positions: the lack of transparency, the treatment of multinationals, the defence of agricultural production and access to American public markets. The two have also demanded that the negotiation mandate should include climate objectives. France insisted for decisions to be made by unanimity, in order to give it a veto over cultural production which is not included in the Agenda. Austria's radical position that negotiations should stop and the process should start again was remarked by the EU's trade commissioner Cecilia Malmström, who stated that "nowhere else in Europe is TTIP more hotly debated than in Austria" (*The Local*, September 2016). Similarly, France called for a complete suspension of talks, accusing the US of blocking any workable compromise. "Political support in France for these negotiations no longer exists," said Matthias Fekl, the French commerce secretary. President Hollande also said he would "never accept" the deal because of the rules it enforces on France and the rest of Europe – particularly in relation to farming and culture – claiming that they are too friendly to US businesses: "*We will never accept questioning essential principles for our agriculture, our culture and for the reciprocity of access to public [procurement] markets*" (The Independent, 28 August 2016). The decision to leave the negotiating table has been broadly welcomed by politicians across France.

(2) **Political influence** has been emerging inevitably from the context under which negotiations were held: forthcoming elections in key Western countries, Britain's referendum to leave the EU, the rise of nationalist parties in many Western European countries accompanied by euro-scepticism. During election periods, politicians try to capitalize on sensitive woes attributed in most cases to globalization and free trade and promise to solve them if elected. This feeds the anti-trade sentiment, exacerbates voters' opposition to trade and explains the shift of rhetoric over the TTIP.

Greek politicians have added their voice to calls to halt negotiations unless it ensures increased protection for key agricultural geographical indicators. The Greek government is worried about the protection of its traditional cheese (feta cheese) in TTIP and frequently brought the issue up in the meetings of the countries' ministers. "There's not a single TTIP debate in which the Greek colleague

does not raise his concerns on Feta,” said a senior European diplomat (der Burchard and Livingstone, 2016). **Spain** has also expressed its concerns during a round-table in Barcelona of 40 mayors and councillors concluded with the adoption of the Barcelona Declaration on TTIP:

“We demand that current negotiations on TTIP to be suspended until the concerns of local and regional governments have fully taken into account in the ratification in any of these treaties and a new mandate renegotiated taking into account the demands of those who have not been consulted” (Free Trade Zone, 2016).

On the other hand, political support in **Germany** has been strongly towards continuing the talks. German Chancellor Angela Merkel advocated for the deal saying it was not in Europe's interest “to fall behind other regions” such as Asia which had inked similar deals with the United States: *“I believe that such an agreement would mean job opportunities for us and we urgently need jobs in Europe”* (Euractiv, Sept 2016). Still, the public opinion was not that supportive and on September 17th 2016 between 100,000 and 250,000 Germans took to the streets in cities across the country to protest against (TTIP). According to a survey conducted by the European Commission (European Commission, 2014), 59% of Germans stated they were against TTIP, compared to the EU average of 34%. Only the Austrians were less keen. **The UK** has also been a key supporter of the agreement but in the shadow of the referendum for the UK to leave the EU and of the fact that signing TTIP was used as an argument to support Brexiters, instead of “reinvigorating the controversial deal” it has “weakened the EU's clout and made the Americans even less amenable to meeting European concerns and has removed one of the US's closest allies in the talks” (The Economist, 2016).

(3) The EU's **institutional specificity of negotiating trade agreements** has had also its significant contribution to the difficulties of the process. Trade policy is an exclusive power of the EU and thus trade negotiations do not take place within an intergovernmental conference that would bring together all EU Member States and the negotiating partner. EU countries are represented by the European Commission which is primarily represented by the negotiating team coming from DG TRADE. This arrangement, even though equivalent to the US', transforms Member States in rather bystanders than key players given the more fragmented EU's political union. However, all 27 EU member-states will have to ratify the agreement before it comes into force and the final decision must be ratified by both EU Council and Parliament in a full vote (Novotná, 2015). The TTIP has benefited from the support of majority groups in the European Parliament: “the center-right European People's Party, the Progressive Alliance of Liberals and Democrats for Europe, and the European

Conservatives and Reformists). However, groups that focus on highly sensitive environmental or social issues such as the Greens and the United Left have respectively distanced themselves from the process or outwardly rejected it” (Garrido *et al.*, 2015, p 64).

(4) Although 58% of Europeans supported TTIP according to a 2014 Eurobarometer survey (European Commission. 2014), the proposed Agenda has faced a strong and extremely negative reaction from the **civil society** (CSO) particularly from NGOs, consumer groups, labour unions and environmental organisations. These actors have mounted opposition for sundry reasons, starting from the lack of transparency of negotiations, to standards for health and safety, environmental issues, consumer protection and litigation. The regulation part of the agreement has driven much of the public attention and concerns relate to the idea that more compatibility between EU and US regulations may lead to lower standards for health and safety, environment, consumer protection or financial services and that TTIP will actually lead to deregulation because US regulations are much less strict. According to *The Independent*, “70% of all processed foods sold in US contain genetically modified ingredients while the EU allows virtually no GM foods”. The same goes for US’ restrictions on the use of pesticides and use of growth hormones in beef which are restricted in Europe. As for the environment, “the EU’s REACH regulations are far tougher on potentially toxic substances and the EU currently bans 1,200 substances from use in cosmetics, while the US just 12” (*The Independent*, 6 October 2015).

The Investor-State Dispute Settlements (ISDS) provisions have provoked particular controversy as well. Anti-TTIP campaigners claim that the biggest threat is its inherent assault on democracy because under ISDS companies will have the possibility to sue governments if those governments’ policies cause a loss of profits. In effect it means unelected transnational corporations can dictate the policies of democratically elected governments. Concurrently, public services were in the firing line as a consequence of the TTIP would be to open up Europe’s public health, education and water services to private American companies that could be translated into the possibility of the privatisation of National Health Systems.

Over three million citizens have signed a petition against TTIP and have handed it over to the President of the European Parliament, urging him to call a Parliament hearing on the matter. A self-organised European Citizens’ Initiative (ECI) against TTIP, *Stop TTIP*, has collected in just one year around 3,284,289 signatures, more than any other ECI has previously succeeded. Simultaneously, 33 NGOs signed a joint declaration stating their “deep concern and firm opposition” to such cooperation on rules, arguing it will drive down standards in areas such as chemicals, food standards and financial services. Also, around 400 activist groups marched in several European cities: Hamburg, Berlin,

Madrid, Ljubljana, Helsinki, London, Vienna and Paris. According to a member of the Attac network, *“this is the first massive initiative in Europe against free trade agreements. We’ve never seen such a consciousness anchored at the local level”* (Euractiv, Oct 13, 2014).

At the same time, there is an increasingly prevalent perception across EU's citizens that Brussels makes difficult and sometimes wrong policy decisions (e.g. The Anti-Counterfeiting Trade Agreement in 2012) while member states bear the burden of their execution. Consequently, some feel that important issues should fall under national jurisdiction rather than being decided by unelected bureaucrats that might not be working in the public interest. Hence, stakeholders' expectations regarding transparency have been high and the initial degree of confidentiality invoked by the European Commission was an additional noteworthy source of the anti-TTIP sentiment.

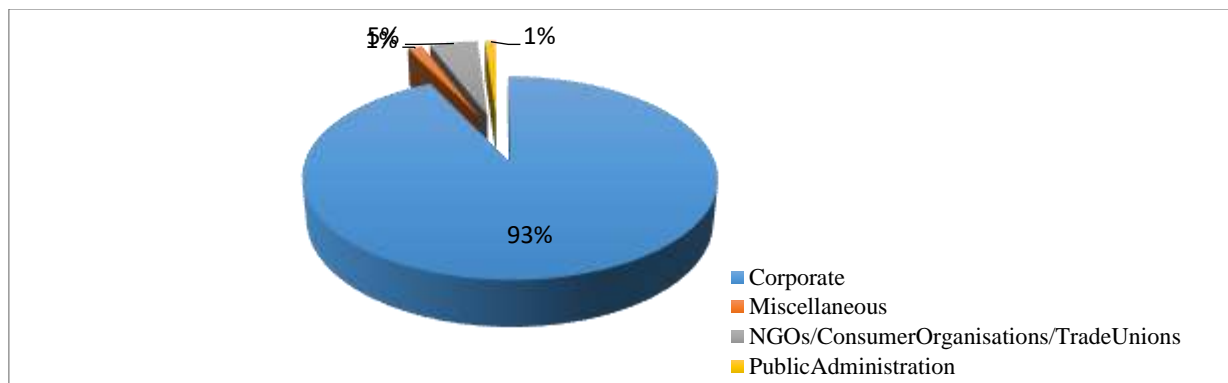
(5) The fact that TTIP negotiations took place in parallel to **other major trade negotiations** (e.g. EU- Canada Comprehensive Economic and Trade Agreement (CETA), The EU-Japan Economic Partnership Agreement, EU- India Free Trade Agreement) creates both learning constraints and opportunities for the EU: negotiating several agreements at once may put a constraint on the resources available but can, however, also be an opportunity because it facilitates the flow of ideas from one agreement to the other (i.e. the “negative list approach” that the EU has used in the CETA negotiations for service liberalization) (Meunier and Morin, 2015, p.205). “Negotiating several agreements simultaneously implies careful legal and political coordination of what is happening in all these negotiations. Such an instance of simultaneous negotiations creates a certain framework and may give rise to issues of interpretation that are expected to carry over across negotiations. Therefore, agreements negotiated simultaneously have to be consistent” (Meunier and Morin, 2015, p.205). The provision similarity of the two agreements with the focus on rule harmonization and ISDS has intensified the civil society hostility and anxiety (i.e. public consultation regarding the ISDS in TTIP refer precisely to the CETA text).

In the wake of this political development, the European Commission has reacted and in March 2014 temporarily suspended ISDS negotiations and initiated a public consultation process, which drew nearly 150,000 replies. The creation of specific advisory groups on the national and EU level which are aiming at better involving public interests are steps proving that these concerns could not be ignored.

(6) **Industry representatives** and **professional associations** all over Europe have also been analysing the impact of TTIP before and during negotiations and tried to lobby according to their interests. An analysis carried by the Corporate Europe Observatory and Lobby Facts points out to the business-biased lobby during the set of the Agenda and the preparation of the mandate for the

negotiations. European Commission's trade department (DG Trade) was lobbied by 298 stakeholders out of which 269 were from the private sector and of the 560 lobby encounters that the Commission had, 520 (92%) were with business lobbyists, only 26 (4%) were with public interest groups, while the rest of 4% were with other actors such as individuals, academic institutions and public administrations (Corporate Europe Observatory, July 2014).

Figure 1. Encounters with the EU Commission in the Preparatory Phase of the TTIP talks



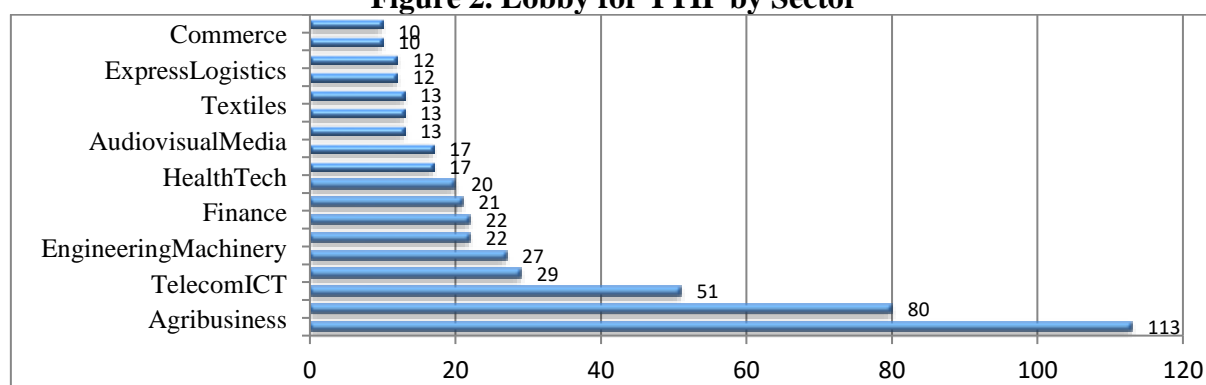
Source: Corporate Europe Observatory, July 2014

For specific sectors, the EU exports expected to rise strongly are: motor vehicles (+149%), metal products (+68 %), processed foods (+45 %), chemicals (+35 %). However, when it comes to sectoral output changes, the one sector not benefitting is electrical machinery: its output would decline both in the US and in the EU (World Trade Institute report, 2016, p. 26).

The main lobby groups with most encounters with DG Trade were: *Business Europe* (the European employers' federation), *The European Services Forum* (a lobby gathering together large services companies), *ACEA* (the European car lobby), *CEFIC* (the European Chemical Industry Council), *Freshfel* (producers and traders of fruits and vegetables), *Eucolait* (the dairy traders' lobby), *Food and Drink Europe* (the biggest EU food industry lobby group), *Digital Europe* (members include all the big IT companies), *The European Generic Medicines Association*, *The Confederation of British Industry* and *The Federation of German Industries* (Corporate Europe Observatory, 2014). This significant range of trade associations manifested their strong support for TTIP negotiations. The joint statement pointed out that: “*Businesses of all sizes, above all small companies, as well as workers, consumers, and citizens in both the EU and the US could benefit. TTIP also provides a timely opportunity for the EU and US to set the rules for trade and investment that could serve as a benchmark for the world. This once-in-a-generation opportunity must not be missed*” (ACEA, 5 Sept 2016).

Irrespective of the economic weight of industrial sectors, the agenda-setting has been driven nonetheless largely by the **agribusiness sector** represented by 113 representatives (20%), more than lobbyists from the pharmaceutical, chemical, financial and automobile industry together. The data also highlights that mainly businesses originating in the US, Germany and the UK and industry lobby groups organised on the EU level have actively participated in the process, while companies from most Eastern European countries were absent from the corporate lobby action, suggesting either that there is little gain for these companies or that they can not have access and influence on the deal (Corporate Europe Observatory, July 2014).

Figure 2. Lobby for TTIP by Sector



Source: Corporate Europe Observatory, July 2014

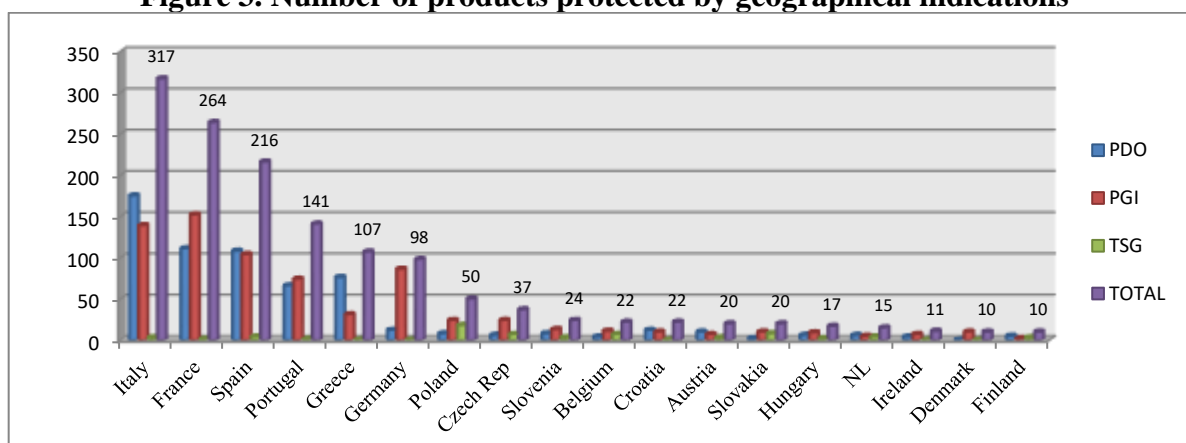
Within the Single Market, agriculture has been traditionally considered a sensitive sector and has thus been highly protected through the EU agricultural policy. The sector is concerned with a range of issues that might affect its competitiveness or even worse might drastically harm European farmers. First, if in 2016 EU registered a trade surplus with exports in agricultural products and foodstuff to the USA of around €15 billion and imports of around €8 billion, according to a study released by UnternehmensGrün, the German Association of Green Business, this could change if and when TTIP is finally concluded and duties and non-tariff barriers are removed, allowing *US companies near-unlimited access* to the European market (UnternehmensGrün, 2015). Second, the agreement seems to *benefit large companies* that are already able to export, it endangers regional supply chains and ignores the needs of small and medium-sized businesses and of regional markets local producers strive for. The argument is voiced, among others, by the CEO of the German Association of Green Business:

It is completely irresponsible to open our markets to further competition at a time when many small farms are already being driven out of business (...) European farms are still mainly small

and family run, and cannot compete financially with large American businesses. (...) the very existence of 99% of small and middle-sized concerns has been ignored by the European Commission.

Third, **GM substances** allowed entering the EU market without being marked, the widespread use of **hormones** and less restrictions on **pesticide** use in the US (the Maximum Residue Limits of pesticides on fruit and vegetables in the USA is up to 500 times higher than in the EU) are perceived as unfair competition translated into lower prices the sector might face from the American agri-food sector. The chairman of the German Association of Organic Farmers, Food Processors and Traders (BÖLW) states that “*the agreement must ensure that those who profit are not those with lower standards, or those who externalize their costs by harming the environment, the poor, or future generations*”.

Forth, there is a high concern regarding the **protection of regional products and geographical indications** that is supposed to be negotiated. Currently, under the EU law protected regional specialties can only be sold under their traditional names if they were actually made in the region. Since 1992, the EU introduced three different labels for goods to protect and support traditional and regional food production: (1) the “*Protected Designation of Origin (PDO)*” seal guarantees that the production, processing and manufacturing of a product takes place in a certain area according to a recognised procedure and it is used for 629 EU products (e.g. Pane Toscano, Gorgonzola, Roquefort, Prosciutto di Parma); (2) the “*Protected Geographical Indication (PGI)*” seal requires that at least one of the steps in production take place in a certain area of origin and specialties labelled as such (e.g. Jamón Serrano, Oktoberfestbier, Miel de Provence, Salam de Sibiu, Carne de Salamanca, Black Forest Smoked Ham, Nuremberg Rostbratwurst); (3) *Traditional Specialty Guaranteed (TSG)*, which does not refer to any geographical origin but requires that the product be produced using certain traditional ingredients or according to a traditional manufacturing or processing procedure (e.g. Pizza Napoletana, Mozzarella). For example, over 300 Italian products are on the EU's protected status list of 1,447 foods, followed by France with 264 products on the list, Spain has 216, and Portugal 141 (see Figure 3).

Figure 3. Number of products protected by geographical indications

Source: authors' calculation based on European Commission data

The industry fears that production of treasured regional specialties could either shift to the United States when trade barriers are lifted or that products can be reproduced and sold under these 'brands' since Geographical Indications might be removed. However, the German Farmers' Association (DBV) representing more than 90% of German farmers sees TTIP as great opportunity that *"gives European producers the opportunity to access the US market, we hope for strong growth and momentum in the industry (...) Everything that is associated with so-called "Old Europe", French cheese, German sausages, Italian pasta etc., has value on the Trans-Atlantic market"* (Euractiv, Jan 11, 2016).

(7) Finally, a range of relevant **impact studies** conducted by prestigious research centres or by individual think-tanks assessing the **overall effects** of the agreement (e.g. Ecorys 2017, Bertelsmann 2016, Center for Economic and Policy Research 2015, Ifo Institute 2013, Centre d'Études Prospectives et d'Informations Internationales 2013, Centre for Economic Policy Research 2013), the manner in which **industries** will be affected (e.g. IMCO Committee 2015, United States Department of Agriculture 2015, CEPS 2014, Rademaekers *et al.* 2014) and what a transatlantic free trade agreement will mean for **EU countries** (e.g. The World Trade Institute 2016; Copenhagen Economics 2015, Századvég Institute 2014) have added a further level of engagement to the debate and have also helped to conduct negotiations on an evidence-based path.

TTIP is likely to **boost EU income levels** by an additional 0.5 % on average. Member State income levels are expected to increase in all EU countries, with the exception of Malta (-0.3 %). The highest gains accrue to Lithuania (+1.6 %), Ireland (+1.3 %), Belgium (+1.1%), and Austria (+0.9 %). TTIP is expected to lead to **export increases** to the US for all EU Member States. Export increases range from +5 % in the case of Cyprus, to +116 % for Slovakia's economy. EU **wages** for both low-skilled workers (+0.51 %) and high-skilled workers (+0.5%) are expected to increase

between 0.03 % in Czech Republic and 1.4 % in (Ireland). Low-skilled wages in Romania, Czech Republic and Estonia are expected to decrease marginally (World Trade Institute Report, 2016, p. 11). Apart from tariff reductions, the economic gains are driven by the estimates of Technical Barriers to Trade (TBT) costs for market access and their expected reductions due to TTIP. According to the CEPR study, a 25 percent of the TBT costs removed will **increase EU GDP** by nearly 0.5 percent per year and US GDP by 0.4 percent. Bilateral EU exports to the US would go up by 28 percent and overall EU exports would increase almost by 6 percent.

So far, the large majority of the studies that have analysed the potential effects of TTIP on agriculture highlight future losses for European farmers. A study carried out by the United States Department of Agriculture, which considered three different scenarios, concluded that American farmers are set to win out in the end. Another study carried out on behalf of the European Parliament came to a similar conclusion: agricultural value in the EU would fall by 0.5% as a result of TTIP and would increase by 0.4% across the Atlantic (AgroParisTech & CEPII, 2014). An analysis released by the Hungarian government concluded that “poultry, cattle and pork products are threatened, as well as corn farmers and wine producers” (Századvég Institute, 2014). Studies also estimate that export opportunities created through TTIP would not necessarily translate into higher incomes but that prices paid to EU farmers in every food category will fall (Beckman, *et al.*, 2015).

On top of that, the EU has admitted that TTIP might cause unemployment and has even recommended the EU members to make use of European support funds to compensate for the expected unemployment as companies might be attracted by American lower labour standards and trade union rights (*The Independent*, 6 October 2015). A study assessing the TTIP impact with the United Nations Global Policy Model estimates that in the EU labour incomes will decrease between 165 and 5,000 Euros per worker depending on the country, a loss of approximately 600,000 jobs, and a continuing downward trend of the labour share in total income (Capaldo, 2014).

Conclusions

TTIP negotiations raise more than simple, traditional trade liberalization questions and have evolved into a political issue with domestic impacts and international strategic ramifications. The vociferous opposition in Europe has clearly complicated the faith of TTIP mainly because economic players have proved to be particularly pro-active in the defence of their interests and thus raising the stakes for making concessions for American demands. The opposition, however, has come not from the traditionally active trade actors, but mainly from consumer and environmental organizations

having concerns about the ambitious behind-the-border measures. Unlike other previous negotiations which have been of greater concern to producers, in the case of the TTIP a significantly greater attention came from consumers. One of the reasons might be that Europe's citizens and consumers have proved to have a high level of precaution towards areas of health, data protection and environment and the less strict regulation on the American market. To address this new and sensitive issue in commercial negotiations and gain the support of these actors, transparency and consultation of all stakeholders seems to be the right answer.

From an institutional perspective, the desirable scenario is to build upon the good progress that has been achieved so far in all the three negotiating Areas: in the *Market Access Area*, positions on access for non-agricultural products and rules of origin issues have been settled, good discussions were achieved also on sectors' *Common Regulations*, while in the *Rules* area some chapters seem close to be concluded (e.g. Small and Medium Enterprises). Still, the available course of action depends on how and if three main obstacles will be overcome: (1) the new Washington Administration's perspective on the matter; (2) the negative 'brand' the deal has 'achieved' and (3) sensitive tariff lines yet to be discussed and significant differences remaining on agricultural market access, governmental procurement and geographical indications. Also, no common ground was found on the investment area and on important chapters such as sustainable development, energy and raw materials.

In brief, the biggest problem TTIP is facing seems to be negotiators' and officials' fail in providing a convincing case for TTIP's appropriateness. Focusing mostly on the "jobs and growth" argument does not seem to meet and consider the apprehension that has dominated the public discourse: transparency, standards for agricultural products, environment and data-privacy issues. In order to comply with both 'camps' vision, an open and evidence-based dialogue is mandatory. At the same time, talking only about the economic benefits of the deal is just like 'focusing on the tree and not on the forest'. A greater emphasis on the geostrategic nature of the partnership might rescue TTIP and restore confidence in the deal (e.g. valorise the inclusion of an energy chapter for diversifying routes and supplies of gas and reduce EU's dependence on Russian natural gas).

Concurrently, the biggest controversy surrounding TTIP is the lack of transparency, which raised umbrages on the discussions and also impeded the concerned parties' ability to assess the impact of the proposal. This is of crucial importance because transparency is a great instrument that allows a rational debate to prevail over bias propaganda. Hence, a better access to the evolution of the TTIP negotiations for citizens and EU states is a real and mandatory issue.

As for the legal provision of ISDS, critics say there is no need for arbitration between Europe and the United States, as the two partners have well-developed and equally mature judicial systems and arbitration is needed only with countries where the local courts are not reliable. There are several legal suggestions as alternatives to the initial proposal (e.g. setting up an international court, or using the existent European Courts, or tailoring the existing system through individual international investment agreements). Whatever the alternatives, maintaining ISDS might lead to endless and fruitless negotiations since some countries heavily oppose to this proposal.

The solution for the divergent opinions among EU countries might come from supporting them to conduct national research on the effects of TTIP so that they can fully acknowledge the benefits, indicate ways to reap the potential positive effects and mitigate any possible negative impacts. At the same time, states should play a more active and constructive role in the negotiations by providing continued guidance, suggestions and feedback to the EU negotiators.

Even though currently talks over the Transatlantic agreement are in the wait-and-see status, the solely initiation of a comprehensive agreement between the EU and the US might be considered as a turning point in the way future liberalization is to be shaped. The short-run trade and economic impact of the collapse of TTIP will not be large, mainly because of its focus on rule-setting rather than tariff-scrapping. Still, it would mean giving up an opportunity that will boost growth and investment, increase competitiveness, and enhance consumer choice that might not soon come back or might lose its impact in time. For both the EU and the US this will mean a retreat from their leadership role in global trade liberalisation.

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Economic relations EU-China - the mechanism that the European Union outlines the position of the economic actor

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Abstract

Both the EU and China face a number of challenges. The EU has reached the pinnacle of international identity and is going through a rather difficult process of rethinking it. Regarding China, this actor goes through a phase of rethinking its economic growth model, namely the transition from an economy based, in greater extent on exports and investment to an economic growth based on stimulating domestic consumption. In this context, in order to meet the challenges of the third millennium and beyond, the two actors need to strengthen their cooperative relations as they are vital in solving the challenges of this millennium. This paper aims to provide an overview of EU-China economic relations and to analyse the impact of these relations on the EU economy.

Keywords: foreign direct investment, economic actor, EU-China cooperation relations

Introduction

The European Union is one of the most important players in the world economy, holding a leading position in certain sectors of the economy (exports of goods, exports and imports of services, supply of development aid, etc.). However, the EU is currently facing a number of problems, such as the slow recovery from the financial and economic crisis from 2008, the mismanagement of migratory flows, the terrorist attacks, the Brexit, etc. In this context, in order to meet the challenges and to maintain its position as an economic actor, implicitly global, the EU should pay more attention to the cooperation relations with the great powers, and not only, because international cooperation is the only way to find pertinent solutions to the problems of the third millennium.

The role of international cooperation has been highlighted by the Charter of the United Nations (1945) - "in our time no state can live in total isolation and it is necessary that each State's efforts for multilateral development to be combined with the efforts of other states in active cooperation, the only way to solve the major problems of contemporary times" - and by the European Commission

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(2012) - "no country has ever been able to sustain long-term growth without joining the world economy". In this regard, this paper aims to provide an overview of the EU-China cooperation relations. Choosing China was not a coincidence that being the world's second largest power and the EU's second trading partner after the United States. In addition, the EU has been enjoying harmonious co-operation relations with China for more than four decades. Moreover, Federica Mogherini, EU High Representative, said in an interview with the Xinhua News Agency that "the People's Republic of China is essential to achieving a better global governance" (Xinhua, 2016).

Also, after the collapse of the Soviet Empire, "the Chinese people began to dream of a multipolar world, in which it would work with the European Union to tame American superpower" (Holslag, 2011, p.293). This dream became a reality because China and the EU are the two centres of power in a multipolar world that are "essential for peace and global development and should work together to address challenges such as: climate change, terrorism, nuclear proliferation and piracy, giving an example of international cooperation" (Hailong, 2013, p.2).

The EU-China cooperation relations established in 1975 have evolved over the years towards a Strategic Partnership that has several facets. In this paper, we have studied one of these aspects, namely economic relations, as they represent the pillar segment of the EU-China Strategic Partnership. In this context, we propose to answer the following questions: (1) What are the main factors influencing the development of EU-China economic relations? (2) What are the particularities of EU-China economic relations? (3) How can EU-China economic relations help to maintain the EU's global actor role? (4) What is China's perceptions of economic relations with the EU?

The purpose of the present research is to analyse the EU-China economic relations and the impact of these relations on the European Union's economy. In this sense, this research has the following structure: Section 1 - Methodology; Section 2 - EU-China economic relations - where we will review the main aspects of EU-China trade relations and EU-China foreign direct investment; Section 3 - Quantitative analysis of the impact of economic relations on the EU economy - where we will apply linear correlation and regression; Section 4 - Conclusions.

1. Methodology

This paper is a fundamental research based on both qualitative and quantitative methods. In the second section, we used the analysis of documents. The documents used in this research are both specialized articles dealing with the EU-China economic relations obtained by querying the ProQuest database through the ANELIS program, as well as reports and communications from the European

Commission on EU relations with China. In selecting and analysing the documents, we considered the following key elements: EU-China economic relations, China's perception of the EU, EU economic player, EU-China trade relations, mutual foreign direct investment. In the third section, we used the statistical analysis, namely the correlation and multiple linear regression; we used the correlation to show the direct and significant link between the variables defined in Section 3 and the regression to show that EU GDP can be explained by the simultaneous variation of EU-China trade, EU-China import, EU-China export and the flows of EU foreign direct investment with China. The data used in the present research were obtained from book-based documentary analysis, EU agreements with China, European Commission communications, statistics, specialist articles and other documents.

2. EU-China economic relations during 1978-2016

Although the relations of cooperation between China and Europe existed 2000 years ago, "when the two major civilizations were linked by the Silk Road" (Xiaotong, 2014), the diplomatic relations between the two global actors were launched in 1975, by signing the first commercial agreement in 1978. It was replaced in 1985 by the Trade and Cooperation Agreement, which was updated in 1994 and 2002. To highlight the development of cooperation relations, the Strategic Partnership was launched in 2003, and in 2008 it was the start for the High Level Economic Dialogue. If we consider the EU member countries individually, they have established diplomatic relations with China before 1975. For example, Romania established official diplomatic relations in 1949, France in 1964, the United Kingdom, the Netherlands and Denmark in 1950, etc.

The economic relations between the two powers, which are reflected in trade and investment, are one of the most representative economic relations in the world, with an important impact on the world economy. To support this statement, we take into account that together they "accomplish one third of the world GDP" (Hailong, 2013, p.2), "include for more than a quarter of the world's population, achieves more than two-fifths of global exports and imports" (Inotai, 2013, p. 48).

Moreover, these relationships have evolved at a fast pace, going beyond the "traditional form of trade, thus encompassing a series of more complex economic problems, such as capital flows, financial cooperation, economic security issues and a series of interdisciplinary topics, with a mixture of economic, social, cultural and political elements" (Inotai, 2013, p. 48).

Although the EU and China have extended their cooperation relations covering more areas of activity, trade relations remain the vital elements of bilateral cooperation. To underline the importance

of trade relations with China, the EU has formulated a number of policy documents on trade with this actor. Table 1 highlights the main EU official documents on trade relations with China and China's first document on the EU.

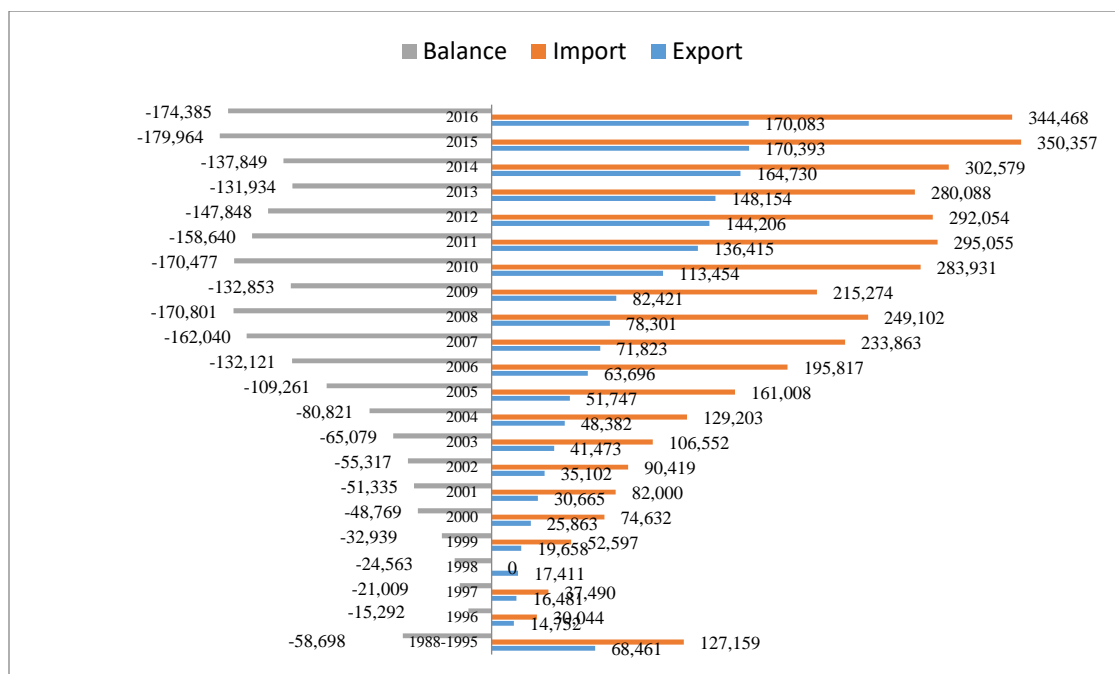
Table 1. The main documents on EU-China trade developed by the EU and China between 1978 and 2016

Year	Document	Objective
1978	The first trade agreement	<ul style="list-style-type: none"> - Strengthening and legalizing economic and trade relations; - Promoting and stepping up trade between the EU and China; - Harmonized expansion of mutual trade (Official Journal of the European Communities, 1975).
1985	Trade and Economic Cooperation Agreement between the EU and China	<ul style="list-style-type: none"> - To encourage the development of industry and agriculture in the European Economic Community and the People's Republic of China; - To diversify their economic ties, to encourage scientific and technological progress; - To diversify access to new sources of supply and to new markets; - To contribute to the development of their economies and to raise their standard of living; - To develop economic cooperation in all areas agreed upon, and particularly in: industry and mining, agriculture, including agroindustry, science and technology, energy, transport and communications; - Environment protection; Cooperation with third countries (Official Journal of the European Communities, 1985).
1995	A long-term policy for the relations between China and Europe	<ul style="list-style-type: none"> - To encourage China to become fully integrated into the international community; - To Contribute to reforming China; - To Strengthen relations between the EU and China (Xiaotong, 2014, p.12).
1998	Building a comprehensive partnership with China	<ul style="list-style-type: none"> - Continued engagement of China, through a modernized political dialogue, into the International community; - Supporting China's transition to an open society based on the rule of law and respect for human rights - China's further integration into the world economy by integrating it into the global trading system and by supporting the process of ongoing economic and social reform; - Supporting European funds; - Increasing the EU profile in China (European Commission, 1998).
2001	EU strategy towards China	It sets out the same objectives as the 1998 European Commission communication; The Communication recommended the intensification of economic dialogue and cooperation (European Commission, 2001).
2003	A mature partnership - common interests and challenges in the EU-China relations.	<ul style="list-style-type: none"> - Updating the objectives set out in the 1998 European Commission Communication and the action plan established in 2001 in the EU Strategy towards China; - Its aim is to give an additional boost to the relationship and to guide EU policy and action over the next two to three years, also taking into account the EU's policy towards the Asian region as expressed in the 2001 Asian Strategy of the Commission (European Commission, 2003).
2003	China's policy paper on relations with the EU	<ul style="list-style-type: none"> - Highlights the objectives of Chinese policy towards the EU, the areas of cooperation and the related measures for five years; - Enhancing and strengthening China-EU relations is a component of China's foreign policy (...) China is committed to a long-term stable and full partnership with the EU (...). It wants to promote a healthy development of economic and trade relations with the EU, based on mutual respect and trust ... and that this partnership will contribute to global peace and stability (People's Daily Online, 2003)
2006	EU - China: closer partners, increased responsibilities	- It aims to strengthen cooperation between the EU and China (European Commission, 2006).

2016	Elements of a new EU strategy on China	<ul style="list-style-type: none"> - To value the new opportunities of strengthening its relations with China; - To involve China in its reform process through practical ways of achieving mutual benefits for our economic, trade, investment, social, environmental and other sectors; - To promote reciprocity, fair conditions of competition and fair competition in all areas of cooperation; - To insist on the need to conclude timely negotiations on a comprehensive investment agreement and an ambitious approach to opening up new market opportunities; - To promote respect for the rule of law and human rights in China and at international level; - To maximize the cohesion and effectiveness of the EU in its relations with China
		(European Commission, 2016).

In terms of trade, the value of bilateral trade increased from €4 billion in 1978 to €514 billion in 2016. In addition, "at the 2013 Summit, the two powers pledged to raise the bilateral trade volume to \$ 1,000 billion by 2020" (Anderlini, 2013). This remarkable increase was due to several factors, but most to EU enlargement.

Figure 1. Evolution of EU-China trade between 1988 and 2016 (million euro)



Source: Authors' representation based on data from Eurostat

After analysing the statistical data, we can observe the following:

1. The EU is net importer of goods during the period 1988-2016;
2. China is the EU's second trading partner after the US;
3. The EU has a growing trade deficit in its relationship with China; Increasing from € 1.201 million in 1988 to € 174.385 million in 2016;

4. According to statistics, "EU-China trade flows exceed one billion euros a day, resulting in an increase in the EU trade deficit in relation to China by EUR 17 million each hour" (Delegation of the European Union to China 2016);
5. The share of EU exports in trade with China increased after 2011, reaching a weight of 33.05% in 2016, thus reducing the trade deficit;
6. While EU exports to major partners stagnated during the economic and financial crisis, those in China experienced an upward trend;
7. The main goods exported by the EU to China are cars, transport equipment and chemicals, and the main imported goods are manufactured goods;
8. If we are considering EU-China trade by partner countries, we can see that in 2016 the main partners were Germany, which accounted for 28.61% of total trade, followed by the UK with a share of 13.51% and Italy with a weight of 7.46%;
9. Most EU Member States have a trade deficit with China, with the exception of Germany from 2011, Finland from 2013 and Ireland from 2016;
10. In 2016, the largest trade deficits were recorded by the Netherlands, with a value of 53,687 million euros and the UK with a value of 36,954 million euros. According to Intoi (2013, p.59), this high trade deficit is "largely explained by the fact that the two countries represent the position of the redistribution centre for Chinese goods in other EU countries";
11. According to statistics, 60% of Chinese exports are made by European companies based in China.

In terms of foreign direct investment, we can say that mutual relations in this area are "at the beginning of the road". This is mainly due to the fact that "neither of the two powers considered the other power a prime destination for investment" (Xin, 2014, p.45). Against this background, "in 2013, the EU invested only between 2% and 4% of its total foreign investment in China, compared to 30% of that total made in the US. Similarly, most of China's foreign investment stock concentrated in Asia (68%) and less in Europe" (Xu *et al*, 2013). Comparing trade relations with mutual investments we can see a clear asymmetry between the two components of economic relations. "After China introduced the Joint Venture Law in 1979, the first European investor appeared in 1980. After hesitations and stagnation in the 1980s, CEE investments in China marked a leap in 1992 and peaked in 1995, when the contractual value was \$ 8 billion" (Câmpeanu and Pencea, 2009, p.102).

According to statistical data, in 2012 the EU became the main destination for Chinese foreign direct investment. In addition, Europe is expected to record a 375 billion-euro FDI attracted from China by 2020.

According to Inotoi (2013), “the increase in the flow of Chinese FDI to the EU was due, on the one hand, to the geographic changes in capital exports to developed countries and, on the other, to China's negative experience in the US (for example, in 2005, on security reasons, the US has prevented a Chinese oil company from acquiring Unocal)”. Another factor that has led to increasing Chinese foreign direct investment in the EU was China's interest in gaining access to high technology. At the same time, the rise in Chinese FDI in the EU also has disadvantages. First of all, Chinese investment practices are not transparent. It is also important to note that European laws and regulations differ from Chinese ones, leading to their violation by Chinese investors and the failure of investment.

In order to remove obstacles to mutual investment, to simplify existing rules and regulations in the two entities, in order to improve European investors' access to the Chinese market and vice versa, in 2013, the two actors launched negotiations to conclude the EU-China Investment Agreement. This agreement would replace the 25 Bilateral Investment Agreements (BIA) concluded by EU Members States with China (Ireland and Croatia have not concluded such an agreement, and Belgium and Luxembourg have a common BIA with China). Unfortunately, negotiations on this agreement have not yet been finalized.

It is important to note that the evolution of economic relations is influenced by certain factors. In the following, we will review some of these factors. A first factor that has led to the development of EU-China economic relations is the economic crisis. In the crisis period, according to Prime Minister Wen, "China has helped Europe and stimulated investment in Europe." China also was holding and still holds huge financial reserves, "which led to the transformation of this actor into a key creditor for the global financial system" (Fox and Godement, 2009, p.12).

Another factor that has deepened and strengthened mutual relations was China's positive perception of the EU. This actor sees the EU as "an increasingly important force in world politics, in international affairs, in promoting multipolarity" (Xiaotong, 2014, p.7), "a useful economic partner and a stability factor" (Dai, 2006, p.14). This is also supported by Rees (2009, p.38) - "The EU is a major force in the world that will play an increasingly important role both in regional affairs and in international affairs".

China's formidable economic growth, WTO membership in 2001, and the growing importance of this actor on the international scene were factors that led to the strengthening and deepening of EU-China economic relations.

Unfortunately, there are also factors that have affected economic relations, thus not allowing the development of mutual relations to their maximum potential. Among these are: restricting access

to the Chinese market to European companies, human rights, the EU arms embargo of China in 1989, the lack of unity of the EU member countries in the cooperation with China.

Regarding the lack of unity of the EU member states in the cooperation relations with China, Fox and Godement (2009, p.3) compares the EU-China cooperation relationship "with a game of chess with 27 opponents arguing about the piece that needs to be moved". In this context, China takes advantage of the fact that EU countries do not have a common approach to the cooperation relationship with this global actor. In addition, Wouters (2011, p.8) emphasized in his paper that "non-compliance with intellectual property rights, cash subsidies to Chinese companies, unrealistic demands and restrictive bureaucracy constitute very strong obstacles to European business opportunities on the Chinese market" and implicitly on mutual economic relations. On the subject of intellectual property rights, "In 2012, four out of five European companies operating in China felt that the implementation of Beijing's intellectual property laws and regulations is inadequate" (European External Action Service, 2014).

Hu *et al.* (1999, p.154) also underlined that "cultural and political differences, incompatible statistical records have prevented trade relations between the two actors from reaching their full potential". However, the two actors want to deepen and strengthen cooperative relations.

By systematizing the above, we can conclude that EU-China economic relations, although not reaching the maximum cooperation potential, are vital to the good performance of economic activity and not only globally.

3. Quantitative analysis of the impact of economic relations on the EU economy

Given that the EU has been confronted with difficult economic conditions and is still confronted, "trade is an important means for the EU both to achieve economic development and to create jobs without damaging public finances" (European Commission, 2013b, p.1). According to European Commissioner on Trade-Cecilia Malmström "31 million jobs in the EU (1 of 7 jobs) depend on sales to the rest of the world" (European Commission, 2016), which means an increase of about 10 million since 1995. These are found in large and small companies, available both in urban areas and in rural areas, across the continent of Europe. Foreign direct investment also has a positive impact on economic growth. In this context, we considered a real necessity to study the link between EU GDP and EU-China trade, EU-China exports, EU-China imports, the flow of EU FDI (foreign direct investment) with China between 1995 and 2015. Entry data were provided by the World Bank website

and Eurostat. The structure of the SPSS database contains 21 records, the analysis period being 1995-2015 and is presented in table A1 and A2 in Appendix.

In this case, the variables considered are displayed in Table 2.

Table 2. Establishing dependent and independent variables

Dependent variable	Independent variables
GDP (Euro)	Export (Euro)
	Import (Euro)
	Trade (Euro)
	Unemployment_Rate (%)
	Employment_Rate (%)
	Foreign Direct Investment (Euro)

Notes: GDP, employment rates and unemployment rates refer to EU. Trade between China and the EU are between 1995 and 2015. The value of FDI represents the flow of EU foreign direct investment with China over the period 1995-2015. Source: Authors

As stated above, international trade has an important role in the economic growth process and can be considered "a true driver of economic growth". This is also supported by the Communication "Trade for All", which emphasizes that "trade relations will be an even more important source of growth in the future. Approximately 90% of global economic growth over the next 10-15 years is expected to be generated outside Europe" (European Commission, 2015, p.8). In addition, "international trade contributes to the sustainable development goals set out in Agenda 2030 on Sustainable Development" (European Commission, 2015, p.7).

Also, the importance of international trade results from the fact that it imports and exports the most innovative ideas, the latest cutting-edge technologies and, last but not least, the results of the latest research. In this respect, we are asking ourselves to test the following hypotheses:

H1: There is a strong link between EU-China exports and EU GDP.

H2: There is a strong link between EU-China imports and EU GDP.

H3: There is a strong link between EU-China trade and EU GDP.

H4: There is a strong link between EU-China investment and EU GDP.

To see if there is a link between the above mentioned variables, we will apply the correlation method. We note that in Table 3, entitled Matrix of correlations, the coefficients obtained for some variables have high values (greater than 0.5), which shows that there are statistically significant links between the variables. For example, a strong and direct link can be seen between the GDP and trade variables, GDP and exports, GDP and imports. In this case, the correlation coefficients obtained for these variables have the following values: 0.960, 0.793 and 0.911, respectively. Which means that these values are very close to one, which corresponds to a perfect correlation. There is also a direct

and strong link between import and investment (0.848), trade and investment (0.800), unemployment and employment rates (0.869). At the same time, we note that in the Table 3 entitled Matrix of correlations there are no direct and strong links between the variables: unemployment and investment (0,107), trade and unemployment (0,133), export and unemployment rate (0,27), import and unemployment (0,235). This is due to the structure of export, import, trade and foreign direct investment.




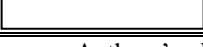
Table 3. Matrix of correlations

		Export	Import	Trade	GDP	FDI	Employment_rate	Unemployment_rate
Export	Pearson Correlation	1	,604**	,868**	,793**	,543*	,357	,027
	Sig. (2-tailed)		,004	,000	,000	,011	,112	,906
	N	21	21	21	21	21	21	21
Import	Pearson Correlation	,604**	1	,917**	,911**	,848**	,634**	-,235
	Sig. (2-tailed)	,004		,000	,000	,000	,002	,306
	N	21	21	21	21	21	21	21
Trade	Pearson Correlation	,868**	,917**	1	,960**	,800**	,574**	-,133
	Sig. (2-tailed)	,000	,000		,000	,000	,007	,567
	N	21	21	21	21	21	21	21
GDP	Pearson Correlation	,793**	,911**	,960**	1	,737**	,727**	-,357
	Sig. (2-tailed)	,000	,000	,000		,000	,000	,112
	N	21	21	21	21	21	21	21
FDI	Pearson Correlation	,543*	,848**	,800**	,737**	1	,287	,107
	Sig. (2-tailed)	,011	,000	,000	,000		,207	,644
	N	21	21	21	21	21	21	21
Employment_rate	Pearson Correlation	,357	,634**	,574**	,727**	,287	1	-,869**
	Sig. (2-tailed)	,112	,002	,007	,000	,207		,000
	N	21	21	21	21	21	21	21
Unemployment_rate	Pearson Correlation	,027	-,235	-,133	-,357	,107	-,869**	1
	Sig. (2-tailed)	,906	,306	,567	,112	,644	,000	
	N	21	21	21	21	21	21	21

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

Legend:

	Strong relationship $r = [0.75, 1]$
	Moderate relationship $r = [0.5, 0.75]$
	Poor relationship $r = [0.25, 0.5]$
	There is no relationship $r = [-0.25, 0.25]$

Source: Authors' calculations based on data processed with SPSS

Next, we apply the linear multiple regression method. In this analysis, the regression model aims to see if GDP can be explained by the simultaneous variation of exports, imports, trade and investments. In this case, we have proposed to test the hypotheses mentioned above. In the present study we will use the following regression equation:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \quad (1)$$

Where:

Y= PIB	dependent variable
X ₁ = export	independent variable
X ₂ =import	independent variable
X ₃ =trade	independent variable
X ₄ =FDI	independent variable
β ₀ , β ₁ , β ₂ , β ₃ , β ₄	regression coefficients

After processing the data with SPSS software, we obtained the following results:

Table 4. Estimates of calculated correlation coefficients

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,969 ^a	,939	,923	619158350711,77900

Notes: a. Predictors: (Constant), FDI, Export, Import, Trade; b. Dependent Variable: GDP

Source: Authors' calculations based on data processed with SPSS

In Table 4, entitled Estimates of calculated correlation coefficients, we note that the value of the correlation ratio has a high and positive value ($R = 0.969$), which indicates that there is a strong and direct link between the GDP value and the explanatory variables considered. The coefficient of determination (R Square) shows that 93.9% of the variation of the dependent variable is explained by the simultaneous variation of investment, export, trade and import variables.

The estimated value of the adjusted multiplied coefficient of determination obtained (0.923) shows with greater precision the influence of the independent variables on the dependent one, in other words, it shows that the simultaneous variation of the investment, export, trade and import variables explains 92.3% of the change in GDP value. After testing the regression model it was found that the proposed model is statistically significant in order to explain the dependence of the variables, so we obtained ($\text{Sig } F = 0.000$) $< (\alpha = 0.05)$). Therefore, it can be guaranteed with a probability of 95% that independent variables explain the variance of the dependent variable, GDP.

Table 5. Testing the significance of the model using the Fisher test

ANOVA^a

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	936686065591207	4	234171516397801	61,084	,000 ^b
		20000000000,000		80000000000,000		
	Residual	613371301209808	16	383357063256130		
		6000000000,000		360000000,000		

Total	998023195712188 0000000000,000	20
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Notes: a. Dependent Variable: GDP; b. Predictors: (Constant), FDI, Export, Import, Trade

Source: Authors' calculations based on data processed with SPSS

Based on the results from the table below obtained with SPSS, the following estimated model is obtained:

$$\text{GDP} = 7852139418278,428 - 10,227\text{X}_1 - 1,999\text{X}_2 + 21,187\text{X}_3 - 82,843\text{X}_4 \quad (2)$$

Table 6. The result of testing the model parameters Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95,0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
(Constant)	78521394182	280650999		27,978	,000	7257185877	8447092959
	78,428	422,030				371,936	184,920
Export	-10,227	14,858	-,361	-,688	,501	-41,725	21,271
Import	-1,999	13,874	-,092	-,144	,887	-31,410	27,412
Trade	21,187	14,640	1,524	1,447	,167	-9,848	52,222
FDI	-82,843	47,986	-,208	-1,726	,104	-184,570	18,883

Note: a. Dependent Variable: GDP

Source: Authors' calculations based on data processed with SPSS

The above proposed model was validated by testing a set of four hypotheses on modelling errors, namely: the mean of errors is null, normality, homoscedasticity, and mismatch errors. Taking into account that all the assumptions about the regression model errors are respected, the analysis is considered validated. So, EU-China exports, EU-China imports, foreign direct investment flows and EU-China trade influence EU GDP.

Conclusions

This paper analyses the evolution of EU-China economic relations and the impact of trade and foreign direct investment on the EU economy.

The EU and China have established official diplomatic relations 42 years ago, evolving at a rapid pace, from trade to strategic partnership. It is important to note that these relations are currently taking place in a framework of win-win cooperation based on reciprocity and equality.

As a result of the analysis of the statistical data, it was found that the value of the trade increased in the period 1988-2016 by 40 times, having an upward trend both during the economic and financial crisis and during the sovereign debt crisis. We cannot say the same about reciprocal investments, which are in their infancy. Although the two entities have a different approach to co-operation, they

are prepared to learn one from the other, thus promoting world peace, economic development, global cooperation, and last but not least, the establishment of an international more equitable order.

Given that EU-China economic relations have gone beyond the bilateral framework, the two entities need to establish their areas and objectives of cooperation, taking into account what is happening globally. In this respect, the two actors pay increased attention to the problems faced by the entire nation, such as environmental issues, energy security, terrorism, international finances and regional issues related to security, peace and new areas Cooperation. In this context, the EU and China intend to find relevant solutions to the challenges of the third millennium through cooperation. In view of these arguments, we can say that the two countries represent two global and implicit economic actors, with a strong impact on the world economy.

For EU-China economic relations to be developed at their maximum potential, it is advisable to eliminate the factors that negatively affect mutual relations and set "small" but concrete and measurable targets.

Also, in the paper, we have noticed that the EU and China are both partners and competitors; this situation will influence the future of economic relations. In this respect, for the development of harmonious relationships characterized by interdependence, it is advisable to establish a balance between the position of the partners and the position of the competitors.

In the last part of the paper we used the statistical analysis, namely correlation and regression, through which we could see that there are direct and strong links between EU-China trade, EU-China investments, EU-China imports, EU-China exports, and GDP, and that EU GDP is influenced by the four independent variables.

In conclusion, we can say that bilateral economic relations give to the two actors economic and political influence both at regional and international level.

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Appendix

Table A1. Descriptive variables

years	Export	Import	Trade	GDP	Employment_Rate
1995	14690039992.00	26343301194.00	41033341186.00	7246008900000.00	50.26
1996	14752379835.00	30044353700.00	44796733535.00	7736190600000.00	50.27
1997	16481969770.00	37489680662.00	53971650432.00	8179874200000.00	50.51
1998	17411433585.00	41974265072.00	59385698657.00	8559325300000.00	50.83
1999	19658888189.00	5259592144.00	72255480333.00	8984734800000.00	51.06
2000	25863445870.00	74631931389.00	100495377259.00	9649040300000.00	51.36
2001	30664765961.00	82000005310.00	112664771271.00	10045266400000.00	51.52
2002	35101603926.00	90418918639.00	125520522565.00	10409385900000.00	51.20
2003	41472856957.00	106552436830.00	148025293787.00	10569974800000.00	51.27
2004	48382042139.00	129202747230.00	177584789369.00	11098464100000.00	51.38
2005	51747256739.00	161007711828.00	212754968567.00	11590377700000.00	51.67
2006	63695692961.00	195816950566.00	259512643527.00	12255317200000.00	52.34
2007	71823287676.00	233862918324.00	305686206000.00	12983310000000.00	53.04
2008	78300529491.00	249102060912.00	327402590403.00	13054560500000.00	53.35
2009	82420968954.00	215274099217.00	297695068171.00	12297013400000.00	52.21
2010	113453784390.00	283931014744.00	397384799134.00	12817343100000.00	51.77
2011	136414758418.00	295055122502.00	431469880920.00	13192520400000.00	51.69
2012	144206179822.00	292054169529.00	436260349351.00	13448619500000.00	51.43
2013	148154106569.00	280087937140.00	428242043709.00	13558617400000.00	51.19
2014	164730000000.00	302579000000.00	467309000000.00	14001004100000.00	51.65
2015	350357000000.00	170393000000.00	520750000000.00	14710625900000.00	52.03

Table A2. Descriptive variables

years	Unemployment_rate	FDI	RES_1	Abs_Residual
1995	10.80	787000000.00	-1207413706211.96000	1207413706211.96
1996	10.80	1654000000.00	-717106455088.42700	717106455088.43
1997	10.45	1816000000.00	-421820317455.00800	421820317455.01
1998	9.97	435000000.00	-253013240691.45700	253013240691.46
1999	9.72	2254000000.00	-.04297	.04
2000	9.33	2428000000.00	282535267164.98800	282535267164.99
2001	8.67	2293000000.00	473575747371.29500	473575747371.30
2002	9.01	3103000000.00	694627497682.00000	694627497682.00
2003	9.07	3190000000.00	483023177786.16800	483023177786.17
2004	9.26	3868000000.00	557338879597.09400	557338879597.09

Economic relations EU-China - the mechanism that the EU outlines the position of the economic actor

2005	8.95	6137000000.00	590063603983.34800	590063603983.35
2006	8.21	6728000000.00	505085172203.83600	505085172203.84
2007	7.17	7144000000.00	448432077317.21100	448432077317.21
2008	7.00	5946000000.00	57035648246.41990	57035648246.42
2009	8.92	8101000000.00	81950487807.69530	81950487807.70
2010	9.56	10457000000.00	-860056990251.70700	860056990251.71
2011	9.64	16660000000.00	-436105908017.15400	436105908017.15
2012	10.46	16340000000.00	-234327754863.51400	234327754863.51
2013	10.55	20916300000.00	441125566835.02500	441125566835.03
2014	10.19	8826800000.00	-731252547600.85500	731252547600.86
2015	9.36	6002200000.00	246303794185.05300	246303794185.05

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Overview on Regional Economic Development Gaps across the EU

Mihaela ONOFREI *, Elena CIGU **

Abstract

Despite existing policies of regional development and cohesion at the national and the EU level, economic regional inequalities or disparities stay relatively high or decrease too slowly. In this context, policies to reduce economic regional disparities in the European Union are a constant concern both for policy-makers and for theoretical and empirical research because of the strong impact on sustainable development in general. In this study we combine elements of theoretical and policy discussions with the empirical assessment of economic regional development in the European Union in order to identify the state of regional disparities, what factors are favouring unbalanced growth in different regions of the EU and to find an appropriate theoretical setting to understand, explain and reduce with regional inequality in the EU.

Keywords: regional economic development, regional disparities, cohesion policy

Introduction

The European Union regions are characterized by diversity in terms of social structures, economic growth, institutional profiles, urban-rural relationships, unemployment levels, environmental state and challenges, etc. Embracing this diversity implies a need of policy-makers to adapt analytical approaches to social, economic and environmental phenomena correspondingly.

Regional economic development is a responsibility of the complex structure consisting of the EU authorities, national and regional authorities of countries, and more often local authorities. However, the EU develop regional policies based on convergence and cohesion issues, find instruments and apply different measures to achieve them, and the central government of each country offers a general framework for regional development and has additional measures to finance development projects in less-developed regions. In terms of regional policy, the strategies usually are recommended to focus on main drivers for development, respectively infrastructure and local policy-making, as well as sustainability and special economic zones for ultra-periphery regions. In terms of

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urban policy, the strategies usually are recommended to focus on the urban and territorial development dimension through targeted urban investments; accessibility, mobility and transport; urban governance; and social cohesion. In practice, there are endogenous and exogenous factors that can influence the implementation of regional strategies, conducting to regional development gaps.

However, regional economic policy is designed to stimulate public and private investment in the regions by improving accessibility, providing good quality services from both public and private sectors, control and preserving the environment, encouraging innovation and entrepreneurship and the creation of jobs.

The scope of this study is to emphasize economic regional development gaps and the state of inequalities/disparities between the all EU regions on the NUTS2 level, whether they are increasing or decreasing over the period of time 2000-2015. The approach of the research paper will be first on the background offered by literature regarding regional development, second will present the main instruments of economic regional development policy and third we will identify the gaps of regional development in the European Union using quantitative analysis based on processed data from the international data bases (e.g. Eurostat, World Development Indicators), that are particularly useful for to discover the state of regional disparities for EU regions at NUTS2 level over the period of time 2000-2015, looking at social trends, or policy implications. In our discussion of findings we will use the qualitative data to understand the patterns in the quantitative analysis. In interpreting results and formulating public policy recommendations, the analysis has permanently related to the legal framework in work over the considered period of time.

1. The state of knowledge

The theoretical debate on regional inequalities was subject of different schools of economic thought in time. The neoclassical school (Solow, 1956; Swan, 1956) predicts convergence among advanced and less advanced regions on the basis of constant returns of scale in the production system and three different equilibrating mechanisms, such as: (i) diminishing capital productivity, (ii) inter-regional trade and (iii) inter-regional migration. The divergence school of thought (Rosenstein-Rodan, 1943; Perroux, 1955; Myrdal, 1957; Hirschmann, 1958) shows that growth is a spatially selective and cumulative process, which is likely to increase regional inequalities/disparities.

The major aspect that divides the two schools of economic thought is the relation of regional inequality to national development. The convergence school predicts that higher levels of

development are eventually associated with lower levels of inequality, while the divergence group claims the opposite.

Recently, a number of authors (Artelaris *et al.*, 2008; Artelaris, 2011; Petrakos *et al.*, 2008; Giannetti, 2002; Dobson *et al.*, 2006; Petrakos *et al.*, 2005) find that both processes of convergence and divergence coexist in all levels of development, but in different proportions and with different strength. However, the balance between convergence and divergence forces changes with development levels.

Reducing regional disparities was one of the key means of promoting the *harmonious development* within Europe stipulated in the EEC Treaty of 1957. According to Article 158 of the Treaty, the EU “shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions or islands, including rural areas.” From the perspective of the European Union, the phenomenon of convergence is the guiding principle in the Maastricht Treaty (1992) where it is clearly established. The European Union has increasingly strengthened and the EU-15 Member States have followed a process of harmonization that has reached a very high level in 2004. Although there were disparities between regions, these were not very high. The last two waves of the EU with countries from Central and Eastern Europe – CEE (2004, 2007) have a strong impact and appear to have increased regional inequality dramatically. In this context, it was the duty of policy-makers and researchers to identify mechanisms to reduce imbalances until they are cancelled and to create a harmonized Europe. One of the main instruments to reduce the disparities between regions is considered the complex package of Structural Funds of the EU and authors (Palevičienė and Dumčiuvienė, 2016; Arcalean *et al.*, 2012; Kutan and Yigit, 2007; Pellegrini *et al.*, 2013) discuss in their papers about the real effect of Structural funds on regional economic growth and cohesion. Kutan and Yigit (2007) based on a stochastic endogenous growth model investigate the impact of European Union (EU) integration on convergence and productivity growth finding that Cohesion and Structural funds help the new members catch up with the core-EU members’ standard of living. Arcalean *et al.* (2012) have developed a two-region model that allowed to study the short and long run effects of regional redistribution policies such as the European Structural Funds, finding that increasing the size of the structural funds allows the poorer regions to catch up faster with the richer regions. Pellegrini *et al.* (2013) assess Regional Policy effects through a non-experimental comparison group method, the regression discontinuity design, and a novel regional dataset finding a positive impact of EU Regional Policy on economic growth. Palevičienė and Dumčiuvienė (2016) consider that despite long lasting purposeful structural funds

allocations there are still big regional development gaps between European Union member states and the biggest gap between NUTS2 regions is in GDP per head and GDP per employed person.

2. EU Cohesion Policy

“Cohesion policy” is defined by the European Commission as the policy for “reducing disparities between the various regions and the backwardness of the least-favoured regions”. The Lisbon Treaty adds another facet to cohesion, referring to “economic, social and territorial cohesion”, promoting more balanced, more sustainable “territorial development”.

EU regional policy address regional disparities and solidarity between regions, strengthening the competitiveness and attractiveness of the all member state of EU, obtain economic and social cohesion by diminishing discrepancies between level of regional development and by diffusion the advantages of the common market across the European territory.

In the programming period 2000-2006, the regional policy instruments mainly focused on two objectives: O1: the European regions lagging behind; and O2: the regions that were undergoing structural change. For this financial exercise, a total of EUR 15.307 billion were allocated for the EU’s regions for 758 projects. During this period were eligible seventeen countries of Europe (see Table 1) for both Cohesion Fund (CF) and Instrument for Structural Pre-Accession (ISPA) funding that provided a significant contribution to countries need and compliance with the environmental acquis.

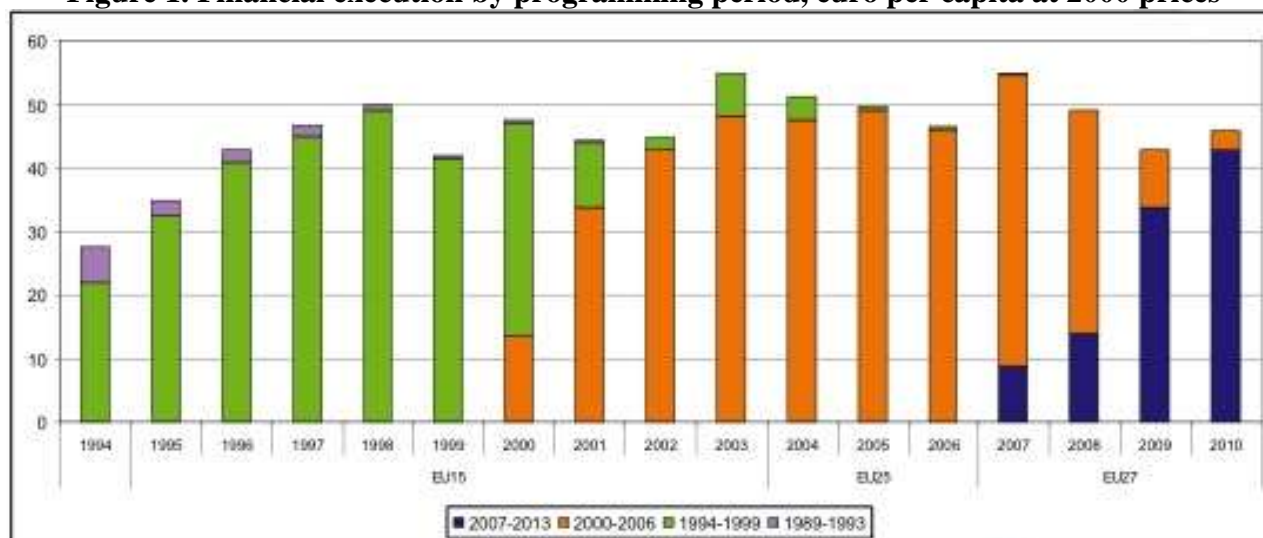
Table 1. Number of projects funded by the Cohesion Fund and ISPA

Country	No. of Projects	Total Projects Cost (€m)	CF (ISPA) Contribution (€m)
Bulgaria	21	501.42	372.31
Croatia	2	48.27	28.5
Cyprus	1	53.97	30.97
Czech Rep.	38	974.83	596.51
Estonia	19	231.03	219.66
Greece	73	1508.35	1154.65
Hungary	24	1271.55	714.2
Ireland	4	561.71	307.52
Latvia	21	479.11	290.15
Lithuania	27	592.25	374.72
Malta	1	34.83	11.72
Poland	86	4525.64	2785.21
Portugal	65	2369.29	1470.65
Romania	36	1398.88	968.17
Slovakia	24	641.16	365.11
Slovenia	16	285.42	129.45
Spain	300	7827.74	5488.04
TOTAL	758	23305.45	15307.54

Source: European Commission (2011), *EU and Countries Final Report*

Financial execution by programming period reveals that at aggregate level (Figure 1) the amount of payments over multiple periods is significantly less variable than the payments related to a single programming period. There is a clear stability in the trend of Cohesion Policy's investments on the ground, without 'gaps' even for programming periods characterised by a slow or delayed start of Cohesion Policy.

Figure 1. Financial execution by programming period, euro per capita at 2000 prices



Source: Bubbico and De Michelis, 2011

Over the budgetary period 2007-2013, the main instruments of cohesion policy were the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund (CF). The first instrument, European Regional Development Fund (ERDF), aims to strengthen regional economic and social cohesion by investing in growth-enhancing sectors to improve competitiveness and create jobs. The ERDF also finances cross-border cooperation projects. European Social Fund (ESF) invests in people, with a focus on improving employment and education opportunities. Another scope is to help disadvantaged people at risk of poverty or social exclusion. Cohesion Fund (CF) invests in green growth and sustainable development, and improves connectivity in Member States with a GDP below 90% of the EU-27 average.

A total of EUR 346.5 billion were set for cohesion policy measures in the EU member countries covering the following priorities:

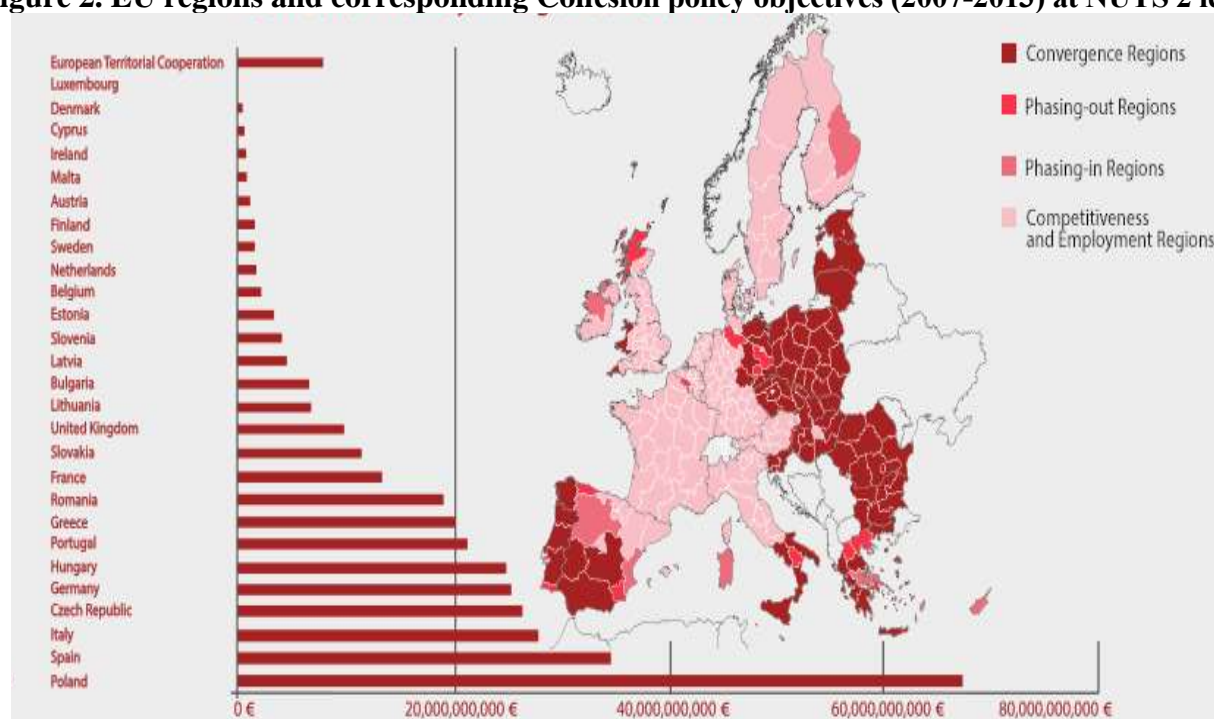
a) '*Convergence objective*' (81.5%), that meant promotion of growth-enhancing conditions and factors leading to convergence of the least-developed Member States and regions, the EU co-financing being between 75% to 85% of the eligible costs of projects for the ERDF and the ESF, and to 85% for the Cohesion Fund;

b) '*Regional competitiveness and employment objective*' (16%) that intended to prepare for economic and social change, promote innovation, entrepreneurship, and environmental protection, the EU co-financing being between 50% to 85% for the ERDF or the ESF; and

c) '*European territorial cooperation objective*' (2.5%) which aimed to strengthen cooperation at cross-border, trans-national and inter-regional levels in the fields of urban, rural and coastal development, the EU co-financing rate being 75% under the ERDF.

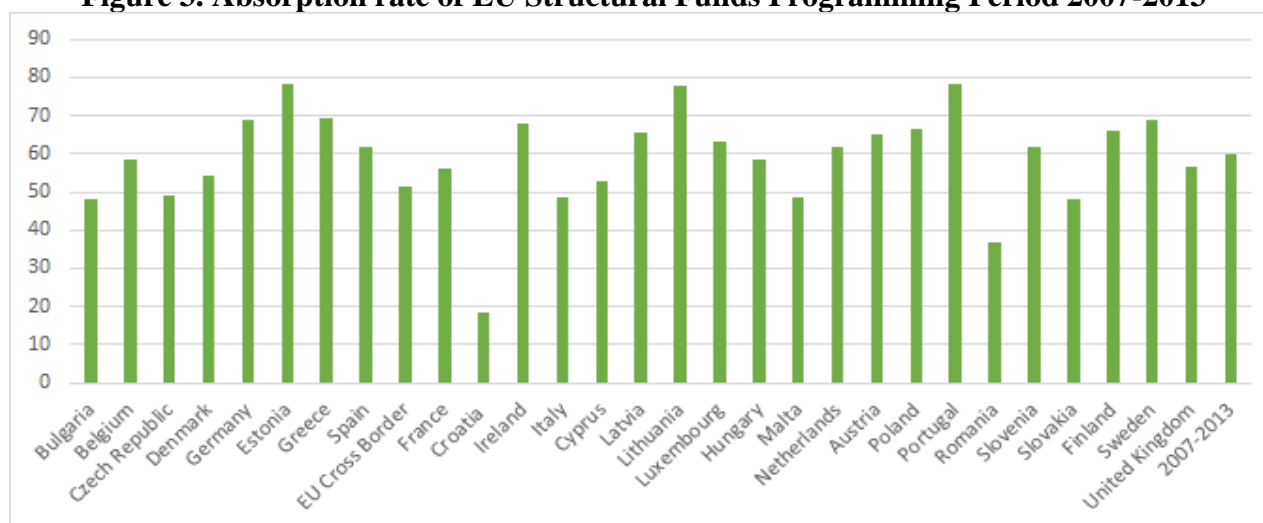
The largest part of Structural Funds (approximately 82% for Programme 2007-2013) was concentrated on the poorest regions of the EU countries. The eight poorest regions in the EU are in two countries, respectively Bulgaria and Romania.

Figure 2. EU regions and corresponding Cohesion policy objectives (2007-2013) at NUTS 2 level



Source: European Commission, 2017

Absorption of EU Structural Funds is diverse, some of countries have recorded higher absorption rates, up of 60% (e.g. Germany, Greece, Spain, Ireland, Latvia, Lithuania, Luxembourg, Netherlands, Austria, Poland, Portugal, Slovenia, Finland, and Sweden), and other have recorded lower absorption rates, under 40%, (e.g., Romania). Financial execution of Structural Fund Programming Period 2007-2013 registered a rate of 60.11%.

Figure 3. Absorption rate of EU Structural Funds Programming Period 2007-2013

Source: computed by authors using DG for Regional and Urban Policy data

Specialists often associate a low level of financial absorption with difficulties in administrative capacities, an insufficient strategic vision or different obstacles in implementation system. The main reasons for the low absorption over the period 2007-2013 are considered, on the one hand, the late agreement on the EU's Multiannual Financial Framework (MFF) for the same period, and on the other hand, consequent delays in the negotiations of the National Strategic Reference Frameworks (NSRF) and the Operational Programmes (OP). Moreover, the late start of the programmes then coincided with the economic and financial crisis that affected all the European Union countries with varying degrees of intensity. Another reason can be consider the own capacity of each member state to absorb the funds taking into account their endogenous factors (e.g. legal system, institutional architecture, traditions, mentality, etc.).

The EU's regional policy for financial exercise 2014-2020 seeks to help every region to achieve its full potential especially visible on economic regional development, through improving competitiveness inside regions and between regions, and raising the living standards both for developed regions, but more of the poorest regions towards the EU average (convergence).

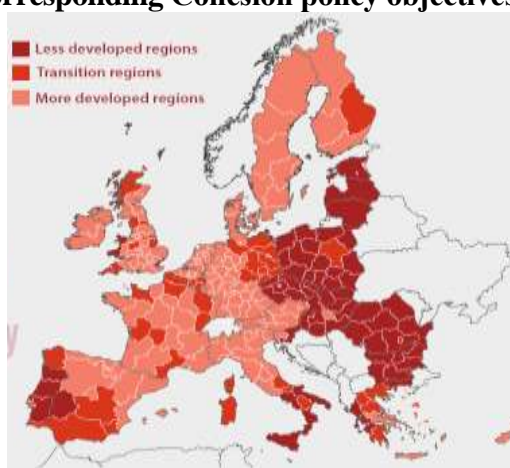
In the budgetary period 2014-2020, other two instruments respectively the European Agricultural Fund for Rural Development (EAFRD), and the European Maritime and Fisheries Fund (EMFF) strengthen coordination and coherence between cohesion policy and the other EU policies contributing to regional development. All five funds together (the European Regional Development Fund - ERDF; the European Social Fund - ESF; the Cohesion Fund - CF; the European Agricultural Fund for Rural Development - EAFRD; and the European Maritime and Fisheries Fund - EMFF) are known as the European Structural and Investment (ESI) Funds for this financial exercise.

For the financial exercise 2014-2020, cohesion policy was redefined on its goals by EU authorities towards maximising impact on growth and jobs, capturing the varying development strands within states of the EU and within each State. In this context, Cohesion Policy has set eleven thematic objectives supporting growth for the period 2014-2020:

1. Strengthening research, technological development and innovation (R&D);
2. Enhancing access to, and use quality of, information communication technologies;
3. Enhancing the competitiveness of SMEs;
4. Supporting the shift towards a low-carbon economy;
5. Promoting climate change adaptation, risk prevention and management;
6. Preserving and protecting the environment and promoting resource efficiency;
7. Promoting sustainable transport and improving network infrastructures;
8. Promoting sustainable and quality employment and supporting labour mobility;
9. Promoting social inclusion, combating poverty and any discrimination;
10. Investing in education, training and lifelong learning;
11. Improving the efficiency of public administration.

Investment from the European Regional Development Fund will support all 11 objectives, but the first four objectives (1 to 4) are the main priorities for investment. Main priorities for the European Social Fund are the last four objectives (8 to 11), though the Fund also supports the first four objectives (1 to 4). The Cohesion Fund supports objectives 4 to 7 and 11.

Figure 4. EU regions and corresponding Cohesion policy objectives (2014-2020) at NUTS 2 level



Source: European Commission, 2017

A total of EUR 351.8 billion were allocated for the EU's regions. Eligible for these funds are the EU regions according to the following classification: (i) less developed regions (EUR 182.2 billion means 51.7% of total funds), where GDP is less than 75% of the EU-27 average; (ii)

transition regions (9.94% = EUR 35 billion) where GDP is between 75% and 90% of the EU-27 average; and, (iii) more developed regions (15,34% = EUR 54 billion) where GDP is higher than 90 % of EU-27 average.

The system of cohesion policy funding 2014-2020 at NUTS 2 level is presented in details in table 2.

Table 2. Total EU allocations of Cohesion Policy 2014-2020 (million EUR, current prices) at NUTS 2 level

Country	Cohesion Fund	Less Developed Regions	Transition Regions	More Developed Regions	Outermost and northern sparsely populated regions	European Territorial cooperation		Youth Employment Initiative (additional allocation)	TOTAL
						Cross-border cooperation	Transnational cooperation		
AT	0	0	72.3	906.0	0	222.9	34.4	0	1235.60
BE	0	0	1039.70	938.6	0	219	44.2	42.4	2283.90
BG	2278.30	5.089.30	0	0	0	134.2	31.5	55.2	7588.40
CY	269.5	0	0	421.8	0	29.5	3.3	11.6	735.6
CZ	6258.90	15282.50	0	88.2	0	296.7	43	13.6	21982.90
DE	0	0	9771.50	8498.00	0	626.7	338.7	0	19234.90
DK	0	0	84	329.2	0	106.3	33.8	0	553.30
EE	1073.30	2461.20	0	0	0	49.9	5.5	0	3590.00
EL	3250.20	7034.20	2306.10	2528.2		185.3	46.4	171.5	15521.90
ES	0	2040.40	13399.50	11074.40	484.1	430	187.6	943.5	28559.50
FI	0	0	0	999.1	305.3	139.4	21.9	0	1465.80
FR	0	3407.80	4253.30	6348.50	443.3	824.7	264.6	310.2	15852.50
HR	2559.50	5837.50	0	0	0	127.8	18.3	66.2	8609.40
HU	6025.40	15005.20	0	463.7	0	320.4	41.4	49.8	21905.90
IE	0	0	0	951.6	0	150.5	18.3	68.1	1188.60
IT	0	22324.60	1102.00	7692.20	0	890	246.7	567.5	32823.00
LT	2048.90	4628.70	0	0	0	99.9	13.9	31.8	6823.10
LU	0	0	0	39.6	0	18.2	2	0	59.70
LV	1349.40	3039.80	0	0	0	84.3	9.3	29	4511.80
MT	217.7	0	490.2	0	0	15.3	1.7	0	725.00
NL	0	0	0	1014.6	0	321.8	67.9	0	1404.30
PL	23208.00	51163.60	0	2242.4	0	543.2	157.3	252.4	77567.00
PT	2861.70	16671.20	257.6	1275.50	115.7	78.6	43.8	160.8	21465.00
RO	6935.00	15058.80	0	441.3	0	364	88.7	106	22993.80
SE	0	0	0	1512.40	206.9	304.2	38.1	44.2	2105.80
SI	895.4	1260.00	0	847.3	0	54.5	8.4	9.2	3074.80
SK	4168.30	9483.70	0	44.2	0	201.1	22.3	72.2	13991.70
UK	0	2383.2	2617.40	5767.60	0	612.3	253.3	206.1	11839.90
Interregional cooperation									571.6
Urban innovative actions									371.9
Technical assistance									1217.6
EU28	63399.7	182171.8	35381.1	54.50.5	1555.4	7548.4	2075.0	3211.2	351854.2

Source: European Commission, 2015

Member States use the funds to finance thematic programmes covering the whole country (e.g. on the environment, transport, infrastructure, education, etc.) or regional programmes channelling funds to a particular part of the country. The changes occurred for the actual programming period (2014-2020) is determined by the Community interest to diminish losses or inefficient allocations from public funds (national or Structural Funds) and are in accord with the Europe 2020 Strategy.

2. Stylized facts on economic regional disparities in the EU

Regional inequalities tend to follow a pro-cyclical pattern. Developed and developing regions grow faster in periods of expansion and more slowly in periods of recession. However, since the 2008/09 crises this relationship has been less clear. Some regions are stagnating relative to others, both within and between member states, whilst others have benefited from an influx of educated labour. For poor or developing regions, inequalities can be identified in social deprivation, poor housing, poor education and healthcare, higher unemployment or inadequate infrastructure provisions.

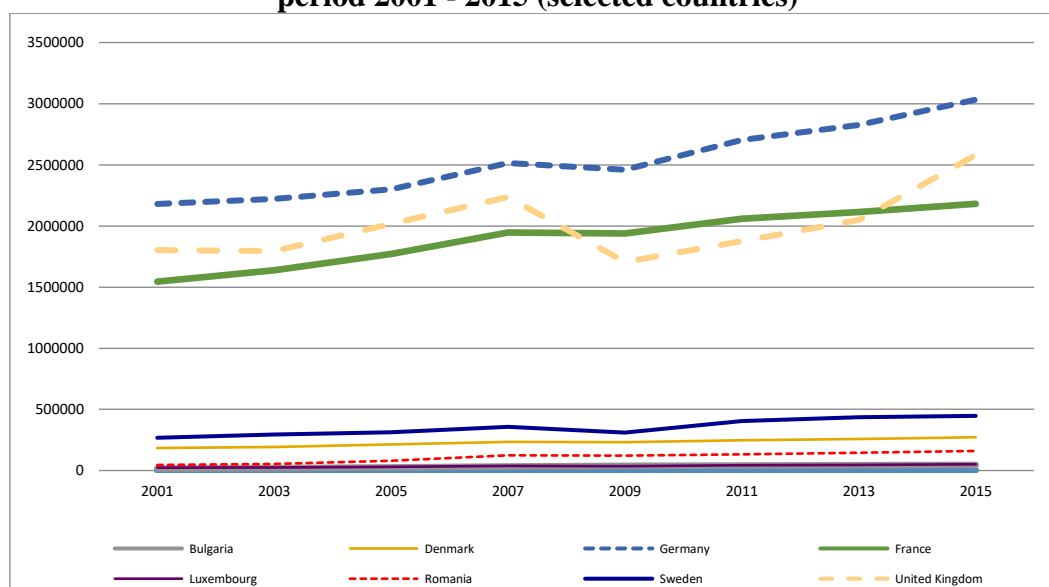
Although researchers, policy-makers and international institutions have proposed different indices or/and indicators to measure regional development, the most used one, as socio-economic indicator is per capita GDP. Thus, economic development is most commonly expressed in terms of GDP, which in the regional context may be used to make comparisons between regions or to measure macroeconomic activity and growth.

Most analyses (Cheshire and Carbonaro, 1996; Geppert, Happich, and Stephan, 2004) on regional development in Europe use NUTS-1 (from 3 million to 7 million inhabitants) or NUTS-2 (from 800 000 to 3 million inhabitants) regions or even a mixture of both. In our research we put priority on NUTS-2 because to this level is easier to capture regional growth process and to identify the disparities between regions than on NUTS-1. However, both level are rather heterogeneous in terms of size and the degree of self-containment and autonomy. The EU is comprised of many diverse regions where some are highly urbanized with a knowledge-intensive economic activity (e.g. Inner London -UK), but others are rural, relatively undeveloped, and reliant on low technology and even subsistence agriculture (e.g. North-East Region – Romania). Regional disparities are stronger than disparities between states, and in this context, a very important role belongs to cohesion policy. As many policies are delivered at a regional level, they are also important for service delivery.

The leading regions with strong discrepancies between states in the ranking of NUTS-2 regional GDP over the period 2001-2015 based on odd years are shown in Figure 5. The figure shows an overview of the overall GDP in EU-28, highlighting the countries with the highest GDP in the EU-28 and the countries with the lowest GDP. These countries were selected to show that as the main macroeconomic aggregate of the national accounts system, expressing the gross added value of goods and services at the final stage of the economic cycle that were produced within a country by economic agents, is not sufficient to reflect the possible level of discrepancies between member states of the EU. For example, Luxembourg and Bulgaria are countries whose GDP is small compared to other EU states, but in terms of population, we find that the tiny Luxembourg is the most advanced country

with a GDP per capita equal to € 89,900 (in 2015), which is more than 14 times the GDP per capita of Bulgaria, the least advanced EU country having a figure equal to € 6,300 in 2015 (Figure 7).

Figure 5. Dispersion of GDP at current market prices (million Euro) NUTS 2 Level over the period 2001 - 2015 (selected countries)



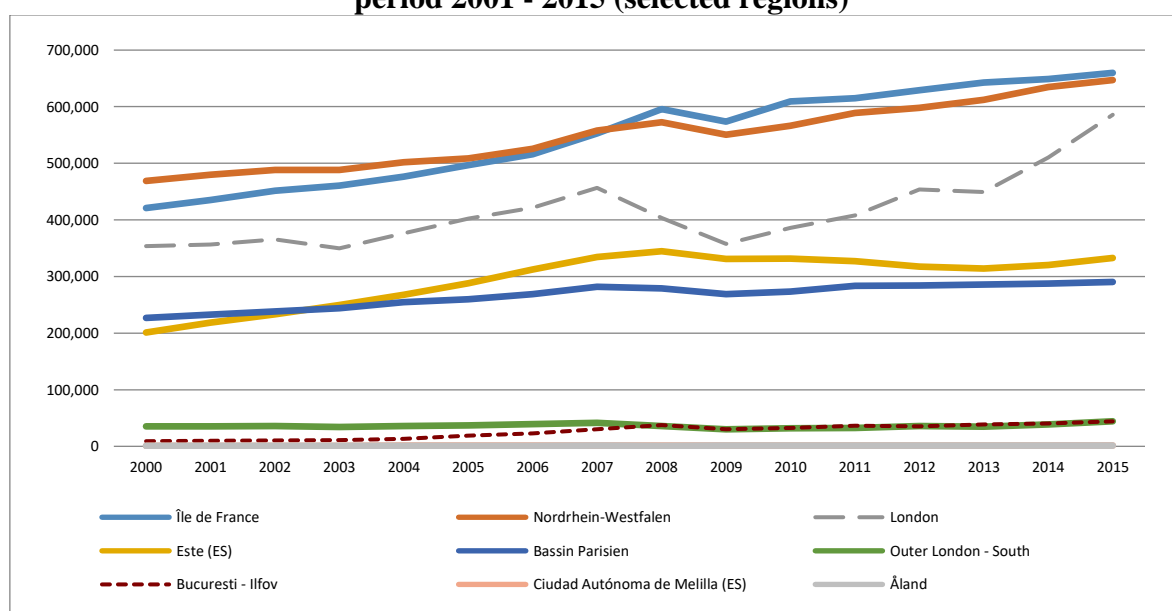
Source: computed by author using data provided by Eurostat [online data codes: [nama_10r_2gdp](#)]

GDP at market prices in the EU-28 was valued at EUR 14.714 trillion in 2015. The top three countries with the highest GDP are Germany, the United Kingdom and France. From the GDP perspective what is of interest is the level of fluctuations at the country level in the case of the selected countries. The most fluctuated GDP was recorded in the United Kingdom where a sharp increase was recorded between 2001-2007, and in 2008-2009 there was a very high decrease, under the level of 2001, with a return to 2007 level only in 2014. The most rapid economic growth relative to the EU-28 countries selected during the period 2001–2015 across NUTS-2 regions of the EU was recorded in Germany, but it also records slight fluctuations during the crisis.

From the GDP perspective on regions (see Figure 6), it can be seen that the top three regions with the highest GDP are registered in Île de France (FR) (659796 million Euro in 2015), Nordrhein-Westfalen (DE) (647067 million EUR in 2015) and London (GB) (585746 million Euro in 2015). The two regions having the half GDP of the top-3 GDP size are Este (ES) (332787 million EUR in 2015) and Bassin Parisien (FR) (290413 million EUR in 2015). Two middle regions on the total number of the EU regions have the GDP between 44241 million EUR and 44154 million Euro in 2015, and are Outer London – South GB) (35443 million EUR in 2000 vs. 44241 million EUR in 2015) and Bucharest – Ilfov (RO) (9117 million EUR in 2000 vs. 44154 million EUR in 2015). One can observe the gap of 250 million Euros between the regions with GDP by half compared to the

regions with the highest GDP and the middle regions as GDP in the total regions. Also, it can be seen that the two middle regions have a different GDP growth; more weighted in Outer London - South (GB) and much more pronounced in Bucharest – Ilfov (RO). The regions with the lowest GDP are Ciudad Autónoma de Melilla (ES) (1444 million EUR in 2015) and Åland (FI) (1346 million EUR in 2015). The London region, which is in the top three regions as GDP, presents the highest fluctuations in GDP. These fluctuations occur especially during the crisis (2008-2009), when the GDP level dropped significantly. Until 2015, GDP is well above the peak reached in 2007 by about 120.000 million Euro. Region Este (ES) registered the highest GDP in 2008, showing slight fluctuations in the analysed period, especially declining after 2008, but recovery in years does not reach the level of the mentioned year

Figure 6. Dispersion of GDP at current market prices (million Euro) NUTS 2 Level over the period 2001 - 2015 (selected regions)



Source: computed by author using data provided by Eurostat [online data codes: [nama_10r_2gdp](#)]

In theory, GDP per capita is often regarded as a proxy indicator for overall living standards. Per capita GDP is considered the best indicator of the degree of development in the EU-28 regions, as it is the most widely available and reliable of all indicators. For a more accurate analysis, it is considered that while GDP per capita in euro measures the competitiveness of each country in the international economy, when measured in PPS (Purchasing Power Standard) it takes into consideration price levels and intends to provide a better estimate of national living standards. During the period of time 2000-2015, GDP per capita of EU-28 average at NUTS 2 level fluctuated, between a minimum of 19.8 thousand PPS in 2000 and 28.9 thousand PPS in 2015.

The leading regions with strong discrepancies between states in the ranking of NUTS-2

regional GDP per inhabitant over the period 2001-2015 based on odd years are shown in Table 3 and Figure 7.

Table 3. GDP per capita at current market prices (million Euro) of NUTS 2 Level over the period 2001 - 2015 (selected countries)

GEO/TIME	2001	2003	2005	2007	2009	2011	2013	2015
EU-28	20.600	21.500	23.400	26.000	24.500	26.100	26.700	28.900
Bulgaria	2.000	2.400	3.100	4.300	5.000	5.600	5.800	6.300
Denmark	34.400	35.900	39.300	42.700	41.900	44.500	46.100	47.800
Germany	26.700	27.200	28.300	31.000	30.600	33.700	35.000	37.100
France	25.200	26.300	28.100	30.400	30.000	31.500	32.100	32.800
Romania	2.000	2.500	3.800	6.000	5.900	6.600	7.200	8.100
Sweden	30.100	32.800	34.700	39.000	33.300	42.900	45.400	45.600
United Kingdom	30.500	30.100	33.400	36.500	27.400	29.600	32.000	39.600
Luxembourg	53.200	57.200	63.800	76.500	72.800	82.500	85.000	89.900

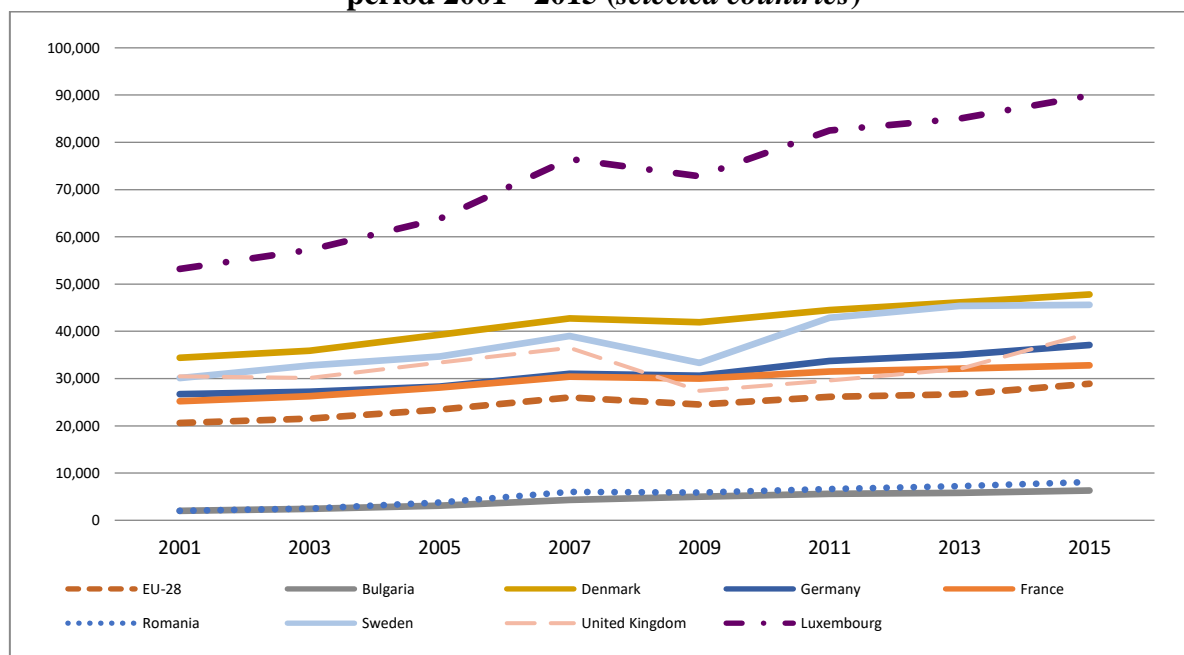
Source: computed by author using data provided by Eurostat [online data codes: [nama_10r_2gdp](#)]

The analysis of variation in GDP per capita from 2001 to 2015 (odd years) for selected countries shows that disparities between the regions at NUTS 2 level of the EU-28 are evident.

The ‘strongest’ European Union country at NUTS 2 level is Luxembourg (89.900 million Euro per capita in 2015). Denmark (47.800 million Euro per capita) and Sweden (45.600 million Euro) have over slightly more than half of GDP per capita in Luxembourg at NUTS 2 level. United Kingdom, Germany, and France at NUTS 2 level have GDP per capita over the EU average with very little. The ‘weakest’ European Union countries at NUTS 2 level are Bulgaria (e.g. Severozapaden Region) and Romania (e.g. North-East Region), with 6.300 million Euro GDP per capita, respectively 8.100 million Euro.

Luxembourg at NUTS 2 level recorded the highest GDP growth per capita, respectively from 53.2 thousand PPS in 2001 to 89.9 thousand PPS in 2015. Significant fluctuations that revolve around the crisis are recorded over time. However, it is noticed that the economic crisis has led to a GDP per capita in Luxembourg that decrease in 2009 (76.5 thousand PPS) comparative with 2007 (72.8 thousand PPS). The most significant decline in GDP per capita as we notice also on overall GDP (Figure 5 and Figure 6) was recorded in the UK at NUTS 2 level from 36.5 thousand PPS in 2007 to 27.4 thousand PPS in 2009. Significant fluctuations that revolve around the crisis have also been recorded in the regions of Sweden (at NUTS 2 level). The other states showed insignificant fluctuations in the analysed period in terms of GDP per capita. Including EU average at NUTS 2 level is quite less fluctuating.

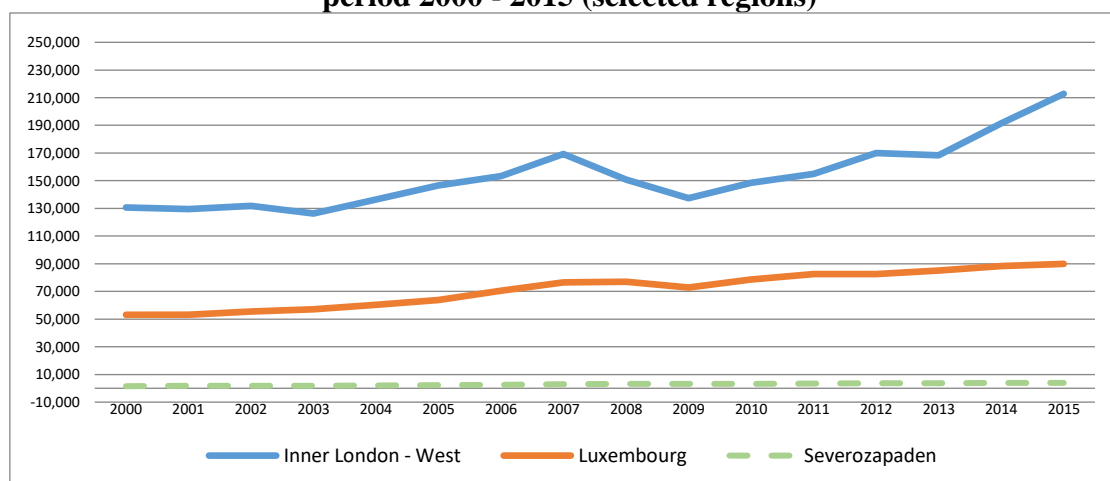
Figure 7. Dispersion of GDP per capita at current market prices of NUTS 2 Level over the period 2001 - 2015 (selected countries)



Source: computed by author using data provided by Eurostat [online data codes: [nama_10r_2gdp](#)]

To show as clearly as possible the discrepancies between the EU-28 regions, we will present in Figure 9 the extreme regions at NUTS 2 level, the first two regions with the highest GDP per capita at NUTS 2 level and the region with the lowest living standard at NUTS 2 level.

Figure 9. Dispersion of GDP per capita at current market prices of NUTS 2 Level over the period 2000 - 2015 (selected regions)



Source: computed by author using data provided by Eurostat [online data codes: [nama_10r_2gdp](#)]

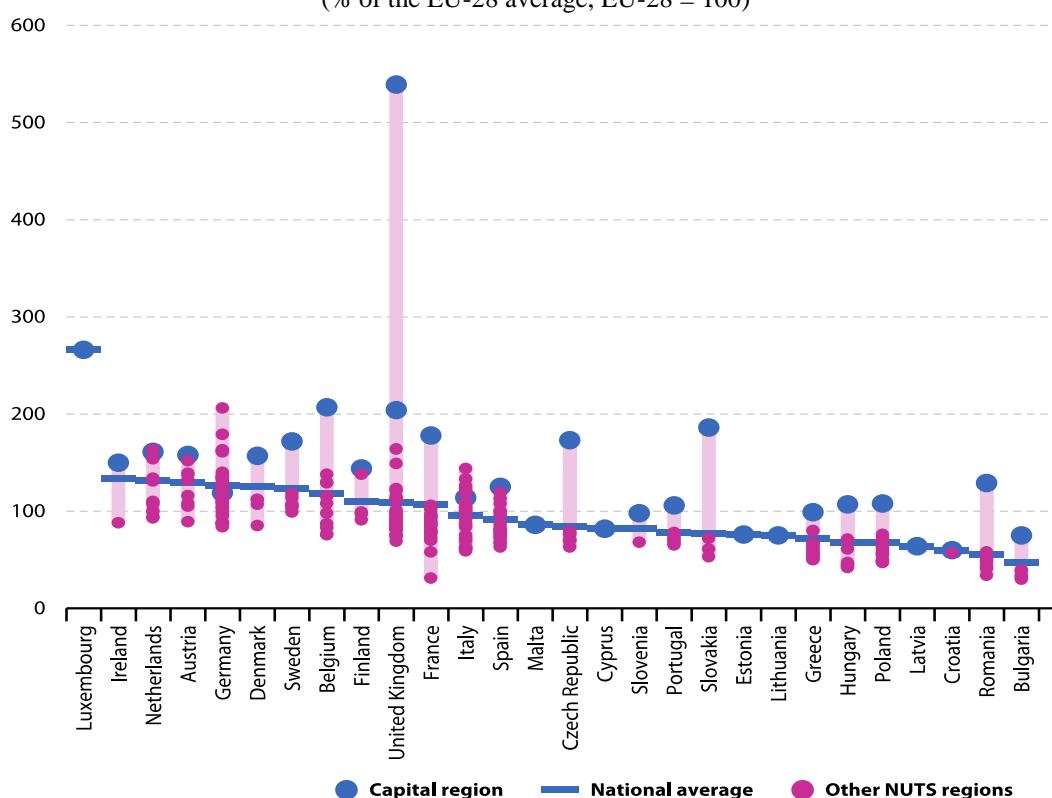
An overview of the EU-28 regions shows that the region with the highest GDP per capita (212.800 million EUR) is Inner London region (GB). The second region with GDP per capita the highest in the EU regions is Luxembourg region with 89.900 million EUR. The poorest region is

recorded in Bulgaria, namely Severozapaden region, with 3.900 million EUR. The disparities between the richest and the poorest regions are very high, so the poorest region has a GDP per capita of about 55 times lower (Severozapaden region in Bulgaria vs. Inner London region in United Kingdom).

The GDP per capita evolution in the Inner London region (GB) is highly fluctuating, with an upward trend in general but with significant declines over the crisis. Much more balanced is the pace of growth in the Luxembourg region.

The reasons for the discrepancies in GDP per capita in the regions are multiple. One of the most significant reasons for our analysis is that in some regions, where GDP per inhabitant appears very high (e.g. Luxembourg, Inner London, etc.) can be artificially inflated by commuters who do not live in these regions.

Figure 8. GDP per capita in purchasing power standard (PPS) in relation to the EU-28 average, by NUTS 2 regions, 2015
(% of the EU-28 average, EU-28 = 100)



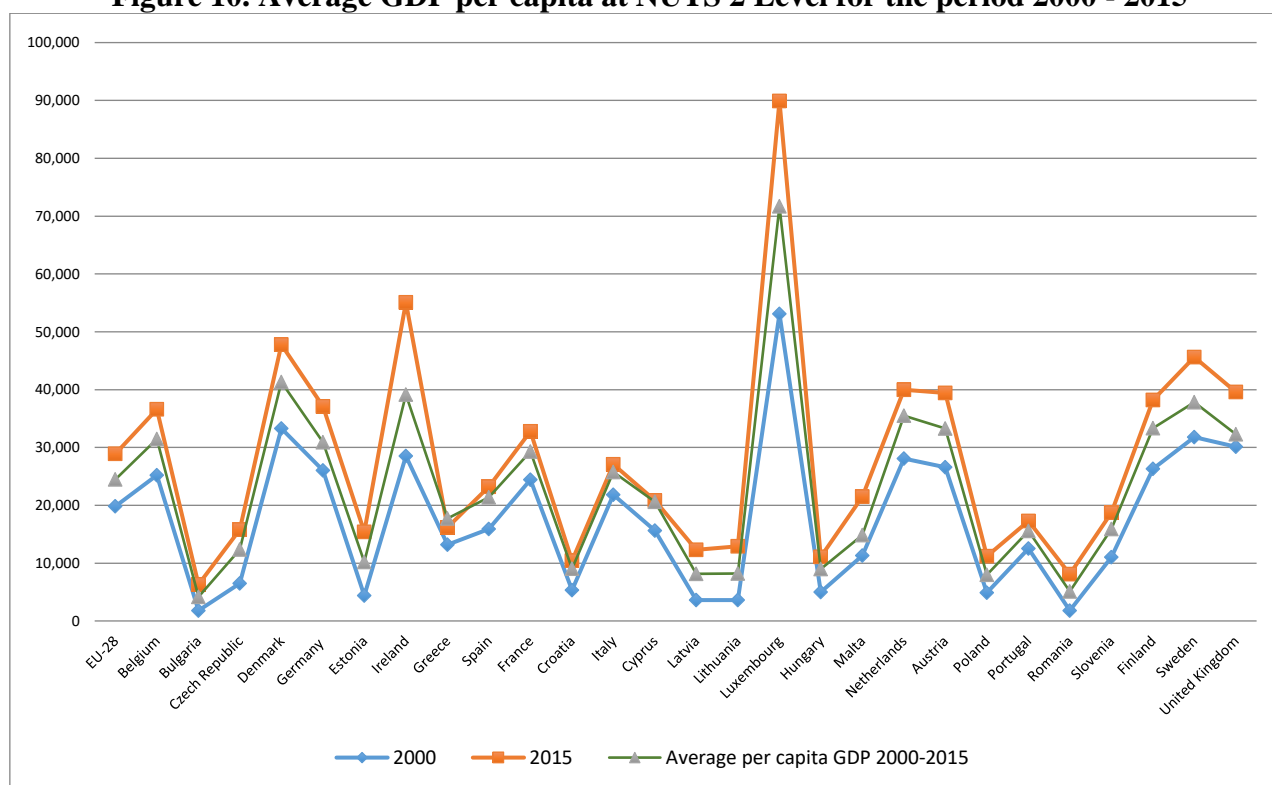
Source: computed by author using data provided by Eurostat [online data codes: nama_10r_2gdp and nama_10_pc]

In most countries of the EU, the spatial patterns of growth have favoured the capital city regions, which have increased their dominance. Capital city regions in most the European Union countries have a GDP per capita figure which is significantly higher than the national and the EU average. In some countries (e.g. Bulgaria, Belgium, Croatia, the Czech Republic, Denmark, France, Greece,

Hungary, Ireland, Poland, Portugal, Romania, Slovenia, Slovakia and Sweden), the capital city regions are the only regions from each of these EU Member States where per capita GDP is higher than the national average in 2015. The only exceptions to this trend are Germany, Italy and the Netherlands.

Figure 10 provides a reasonably accurate idea of the existing inter-EU28 disparities through details of per capita GDP for selected years 2000-2015.

Figure 10. Average GDP per capita at NUTS 2 Level for the period 2000 - 2015



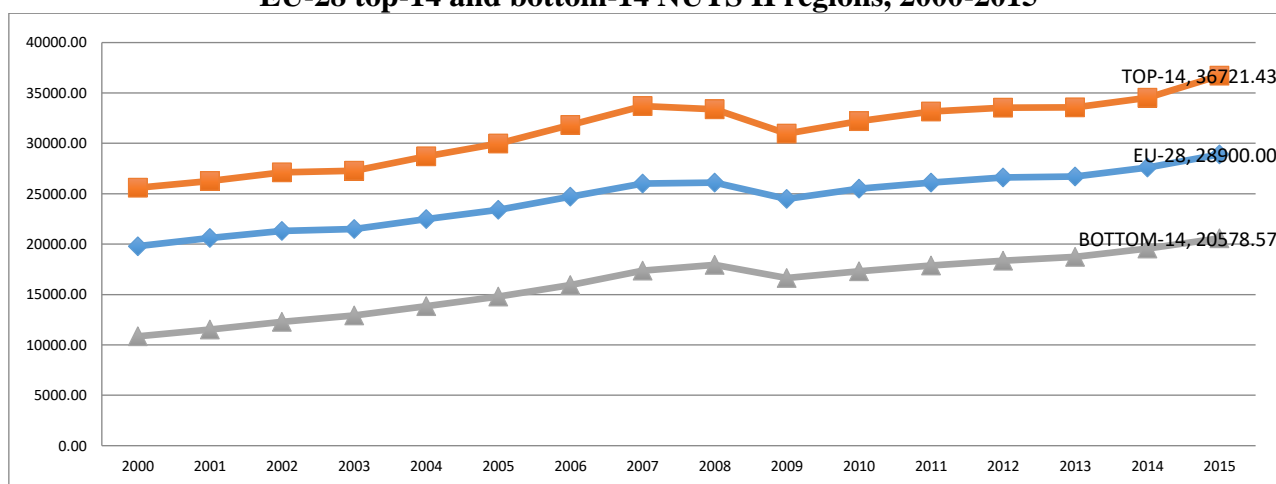
Source: computed by author using data provided by Eurostat [online data codes: [nama_10r_2gdp](#)]

Data on per capita GDP clearly establishes that in terms of average for 2000-2015, the gaps between the European Union regions are approximately the same and not only have the inequalities between States sharpened, there is also wide disparity between regions. Data suggests that regions of Central and East European countries including Baltic countries regions have a smaller per capita GDP compared to the West Europe and this trend remain over years. On average, western and northern regions are more advanced than eastern and southern regions respectively (Petrakos *et al.*, 2004a and 2004b; Barrios and Strobl, 2005).

During the beginning of the financial and economic crisis, GDP per capita in the EU-28 peaked in 2008 at 26.1 thousand PPS. There was a rapid reduction in activity in 2009, with a slight increase in 2010. In 2011 the average level of GDP per capita had returned (slightly) above its pre-crisis peak

(26.1 thousand PPS). The pace at which GDP per capita was increasing slowed in 2012 and 2013 when an average of 26.65 thousand PPS of GDP was generated per capita, before accelerating again in 2014 to 27.5 thousand PPS per capita and in 2015 to 28.9 thousand PPS per capita.

Figure 11. Inequality among the EU-28 countries measured by GDP per capita in PPS for the EU-28 top-14 and bottom-14 NUTS II regions, 2000-2015



Source: computed by author using data provided by Eurostat [online data codes: [nama_10r_2gdp](#)]

In Top-14 NUTS II regions are included regions of Luxembourg, Ireland, Netherlands, Austria, Denmark, Sweden, Germany, Belgium, Finland, United Kingdom, France, Italy, Spain, and Cyprus. Among the countries mentioned, only Cyprus is a country in the wave of 2004, the rest being the EU-15 countries. In Bottom-14 NUTS II regions are included regions of Greece, Slovenia, Malta, Czech Republic, Portugal, Slovakia, Estonia, Hungary, Lithuania, Poland, Croatia, Latvia, Romania, and Bulgaria. Among them Portugal and Greece are countries in the EU-15, the remaining 12 countries entered the EU in 2004 and 2007. We find that Top-14 NUTS II regions with a GDP per capita equal to € 36721 (in 2015), which is almost double the GDP per capita of Bottom-14 NUTS II regions equal to € 20578 in 2015.

The EU top-14 NUTS II regions have improved their relative position in terms of GDP per capita over the 2000-2015 period of time. They have experienced a relative decline of their GDP per capita levels in crisis period, the recovery of 2007 year being in 2014. Only 2015 year registered GDP per capita levels higher than previous period. The same pattern was followed by EU-28 average and the EU bottom-14 regions, but with a slightly decline of their GDP per capita levels in the same period of crisis. Although progress is made at both ends of the EU scale, success is more obvious in the leading regions, rather than in the lagging ones (Figure 11).

Some authors (Petrakos, 2009) consider that a significant part of regional

inequalities/disparities is due to the inability of the least advanced regions to close the development gap and converge towards the national average.

The expansion in 2004 and 2007 of EU to Central and Eastern Europe has increased intra-EU regional inequalities because new entered countries had significantly lower levels of development and led to a doubling of regional inequalities, as we can see in Figure 11, where the dominant in Bottom-14 NUTS II regions are new entrants. When we take into consideration the regional GDP per capita measured in Purchasing Power Systems (PPS) that adjust for price levels, it becomes clear that regional inequalities in the EU based on productivity are considerably higher.

Conclusions

Our results support the view that the scale of regional disparities in GDP per capita differ from country to country and are still higher between the regions of the EU-28. GDP per capita is one of the instruments/criteria of the real convergence process, which allows us to conclude that regional real convergence within the EU-28 is still slow. This point of view is substantiated if we take into account the others real convergence criteria, such as structure of national economy branches, foreign trade, although they have not been subjected to our analysis.

The nominal convergence process is continuous, without being interrupted or considered to be uniform at least at the level of the euro area countries. In this respect, a tool to support the convergence process is even European Structural Funds. Taking into account the particularities of each country, we can conclude that the convergence criteria are differently achieved by each state.

A huge deadlock in meeting or maintaining the nominal and real convergence criteria was the global economic and financial crisis, but the prospect of the EU states continues to achieve the convergence process, as well as meeting the targets set by the 2020 Strategy. Our analysis highlights that there are states whose regions have been significantly affected by the economic crisis from the perspective of GDP per capita.

It is noted that for each EU region there are increases, but each region has its own rhythm of growth, even if the structural funds tried to reduce regional disparities over the period analysed. In this context, Governments have a crucial role to play in reducing regional disparities and promoting balanced development in which all areas and regions are enabled to develop. Also, the involvement of sub-national/regional authorities and regional stakeholders implies to focus on local and regional realities to identify and remove gaps in the provision of human development and basic services and infrastructure with a view to ensuring that all regions or sub-regions and groups have equitable access

to the benefits of development. Starting with these realities and values, the authorities should use them as a basis for policy making.

Our point of view is that the European Union should develop a territorially differentiated approach to Regional policy, adapted to the particular structural needs and socio-economic profiles of each region. In this context, Cohesion policy needs to be diversified. Cohesion policy can be designed as a framework within which local and regional authorities are guided and encouraged in the formulation of policies seeking to overcome contradictions between the different dimensions of sustainable and economic development.

We also believe that eligibility criteria for regions for funds need to be reassessed and adapted. A more dynamic and comprehensive outlook on regional economic development would provide a more nuanced picture of regional structural disparities in Europe that will then be attenuated or in a very optimistic scenario, will be eliminated.

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The mechanisms of integration in conditions of asymmetry of innovative development of the EU

Oksana OKHRIMENKO*

Abstract

The article concerns to methodological and applied aspects of integration mechanisms functioning in the field of innovation activity of the EU countries. Evolution of models of innovative processes and the detailed forms of integration in their section were investigated. The innovative strategies of EU member states in the context of integration and their effectiveness were analysed. The attention is focused on the transfer of knowledge as the main resource of international cooperation. The advantages of a common innovation environment for participants were considered. The experience of innovative development of the leaders of the countries was highlighted. Requirements for companies planning to innovate or implement innovative projects were disclosed. Preliminary recommendations for eliminating asymmetry in EU innovation development were formulated.

Keywords: integration, innovation activity, transfer of knowledge, innovation policy, project

Introduction

The innovation process is complex and multifaceted. Typical processes that form an innovation project have their own specifics since there are differences in the team's professional level, the value of attracted capital, the list and nature of risks etc.

The environment of innovative projects is integrated into the global space, from where the project draws knowledge, technology, resources and where the finished innovative product, intended for commercialization, is delivered.

A vivid example of multilateral integration is the European Research Area, which started its formation and development since 2000, and is based on the movement of goods, services, people, researchers, knowledge and technology.

One of the flagship initiatives of the development strategy of the European Union “Europe 2020” was defined as the “Innovation Union” providing for reorientation of research and innovation policy towards major challenges, namely climate change, energy efficiency, resource efficiency, health, and demographic change.

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The disparity of contributions to the innovative development of the EU Member States creates new requirements to rationalize the use of available resources. Different level of economic development of member states creates risks of innovation asymmetries that occur through the inconsistencies of national innovation policies and ineffective mechanism to promote the innovative entrepreneurship.

The aim of this study is to develop an integrated approach to the implementation of innovative projects implemented in the EU, namely to perform the following tasks:

- to identify the features of implementation of innovation strategies in the EU member states;
- to formulate the requirements for companies planning to engage in innovative activity or to implement the innovative projects;
- to identify the forms of integration within the framework of innovation process models;
- to analyse the key indicators, characterizing the level of innovative activity development in the EU member states;
- to develop recommendations for elimination of asymmetries in innovative development of the EU.

Theoretical and methodological basis of this research was created by the works of J. Cantwell, H. Chesbrough, E. Coukos-Semmel, K. McDonald, R. Rothwell, K. Schwartz, A. Torre *et al.* who investigated the integration aspects of innovation processes and their driving forces.

A retrospective analysis of views on implementation of innovative projects will enable to identify the key factors having a significant impact on the innovative development of national economies. Knowledge and education are significant factors forming the basis for development and capable of serving as a subject of international integration projects. Giannetto and Wheeler (2000, p. 49) believe that the knowledge management is an opportunity to maintain a leading position in a highly competitive business environment, since in modern conditions the winner is the one who knows how to work faster and more efficiently, i.e. who possesses and manages knowledge.

In this respect, the EU experience in developing and implementing the framework programs designed to stimulate innovative processes in recipient countries, with an emphasis on priority areas, is noteworthy.

A special attention will be paid to the proper analysis of models based on Hidden Knowledge and Quick Learning, Open Innovation, Extended Innovation network and Collaborative Innovation Network, since various integration communications are clearly traced in the context of these models.

The proper analysis is supplemented with analytical material, revealing the performance of innovation processes in the EU member states and non-EU members for comparative analysis. The

background information for analysis was obtained from Eurostat, The Trend Chart on Innovation in Europe, The European Innovation Scoreboard, The Innobarometer etc.

Using the analysis of various indicators, we can synthesize certain conclusions giving an insight on effectiveness of the EU innovation policy in general and the criteria for propensity to integration as the most important aspect of optimization and improvement of the invested capital efficiency.

1. Evolution of Innovative Process Models

The organization of innovative processes in the global space is subject to qualitative changes dictated both by the needs to share the experience and information, and by attracting resources from the outside. It is important that the innovative process included not only original ideas, the development of new technology and obtaining of a new product. The diffusion of innovation into the other sectors, development of new market segments, adaptation of new products and technologies for other areas are also very important (Ilyenkova, S., Gokhberg, L. and Yagudin, S. 2003, pp. 21-22, 27-29).

In his study, A. Torre indicates that at the international level, the process of globalisation plays a significant role in promoting and determining the consequent trade policies. At the domestic level, the policy-making is very well allied with the autonomy of state agencies, as well as their institutional capacity and strength. Given that no country or state produces everything it requires single-handedly, the international business appears to be not only a venue where the countries get the services and goods not available to them or lacking in adequate amounts, but also is a participant of international politics either to realize, encourage or maintain peace among global trading partners or nations, or a source of the countrywide insecurity resulting from external advancements in nations which it depends or inter-depend on for crucial merchandises. Occasionally, the battles are fought to preserve that security of the nation (Torre, 2008, pp.869-889).

Continuing Torre's idea, we should note the importance of integration processes to implement the innovative projects. Because of their complexity and uniqueness, the project team has to resort to attracting intellectual assistance and resources from outside. Integration is not a static value. The forms of its manifestation periodically undergo changes.

While the supporters of early neo-liberalism, M. Allais and W. Ropke, considered full integration to be a single market space with market-independent market forces, the supporters of late neoliberalism (B. Balassa *et al.*) paid special attention to the evolution of integration based on the development of economic and political processes in the country. The followers of corporatism (W. Rostow, S. Hymer) assigned the leading role to international corporations in international economy

integration. In turn, the structuralists (G. Myrdal *et al.*) believe that large firms and industries directly involved in the transformation of national economies are the main centres of integration.

J. Cantwell wrote about the leadership of technology and the role of globalization in the innovation transfer process in 1997. His work has not lost its relevance until now. The researcher believes that technology leaders have altered the nature of international technology creation by pioneering the international integration of MNC facilities into the regional or global networks. Globalization in this sense involves the establishment of new international structures for technology creation. In the past, foreign technological activity exploited domestic strengths abroad, where it was located in response to the local demand, assisted the growth of the other high-income areas, and its role ranged from the adaptation of products to suit the local tastes through to the establishment of new local industries. At that time, the capacity to implement the internationally dispersed innovations was derived from a position of technological strength in the firm's home country base, and led to similar lines of technological development being established abroad. By contrast, today, for companies of the leading centres, foreign technological activity now is increasingly aimed at tapping into the local fields of expertise, and at providing a further source of new technology, which can be utilized internationally in the other MNC operations. In this respect, innovation in the leading MNCs is now more genuinely international or, according to the language of this paper, it has become 'globalized' (Cantwell 1997, p. 236).

The integration took a step beyond the boundaries of corporations and focused on the level of economic alliances. Here the integration processes are subordinated to a common policy and strategy, and innovation activity is planned and linked to various sources of financing. Both the representatives of the dirigisme and the neo-Keynesians insisted on the coordination of internal and external policies of the integration participants. Now we can observe these theoretical developments in action.

The way to innovation and competitive production runs through the main components of innovation policy, which is a guideline for state and business ideology. The politics is a dynamic component accompanying the development of national innovation systems and adjusting their settings.

Policy development and innovation is derived from the development policy of the other areas. While the development policy arose primarily from SME policies, the innovation policy arose from the policy of development, science, technology, research and designs (Dahlstrand and Stevenson, 2010, p. 2).

The integration approach, as a reflection of the ideas of integration policies of economic, political and business entities, found its expression and developed many forms within the framework

of innovative projects. It is related both to the interaction of participants who represent various jurisdictions and institutions, and integration of the processes and programs within the framework of projects.

V. Kulichenko (2016) in his study notes that this approach makes it possible to provide a synergistic interaction of all elements of projects and programs, which in turn leads to increased control over budgetary expenditures, reduces corruption, improves the budget planning justification, early risk detection and risk management, increasing the transparency and efficiency of management.

McDonald, Tuselmann, and Heise (2002) noted that MNCs focus on supplying all or large parts of Europe from fewer sites and on creation of new markets. However, there is evidence to suggest that European subsidiaries of MNCs based in large European economies such as Germany, France and UK tend to grant lower-level mandates to their subsidiaries than is the case of non-European MNCs and those based in the smaller economies of Europe. Granting the low-level mandates to subsidiaries in regions does not offer a broad range of desirable assets in understandable form, but it is not clear why there should be a country-specific effect based on the home base of MNC. The authors provide theoretical explanation of the low-level subsidiary development in regions with few desirable resources and believe that involvement in international business undertakings helps nations optimise their country's proficiency in trade in delivery of services and goods to the international market, promoting the emergence of new ideas in business.

All these trends are reflected in the quality of innovative projects. Rothwell (1993) identified five models of innovation processes. An evolution has led to the emergence of new models of innovation processes, and this trend continues (annex 1).

In these models, we have identified the forms of integration. So the evolution is considered from the standpoint of cooperation form development. If the first-generation model does not include integration relations, the transformation within the organization views on innovation began to form links between R&D and operating units, as well as marketing and R&D. In addition to the state policy at all levels, the market intervenes in the integration process. It performs the functions of selecting participants and integrating their efforts to create the competitive value-added products, works, and services.

The automatic transformation of knowledge into new products is replaced by a conscious process of creating an innovation oriented to the market. Marketing-oriented approach is developing in cooperation with suppliers and leading customers. Any customer's desire is reflected in improvement of the relations with suppliers. Strategic partnership and joint research projects lead to

the formation of the "open innovation" concept. A consistent approach to creating innovation is replaced by a process approach.

The concept of open innovation activates the cooperation of enterprises and organizations in the field of research, development and commercialization of innovations. Thus there is a risk of loss of the advantages obtained as a result of joint innovative activity.

Chesbrough and Schwartz (2007) believe that the "open innovation" model attracts external participants and sources to help them achieve and support innovation.

Laursen and Salter (2006, p. 146) believe that a central part of the innovation process is about the way the firms search for new ideas having a commercial potential. New models of innovation have suggested that many innovative firms have changed the way they search for new ideas, adopting open search strategies involving the use of a broad range of external actors and sources to help them achieve and sustain innovation. The main idea formulated by researchers is that "We introduced two new concepts, i.e. external search breadth and external search depth, to describe the nature of a firm's strategies to access knowledge from sources outside of the firm. We have argued that firms which are more open to external sources or search channels are more likely to reach a higher level of innovative performance. Openness to external sources allows firms to draw in ideas from outsiders to deepen the pool of technological opportunities available to them."

Introduction of the concepts of external search breadth and external search depth allowed specifying the strategies of enterprises in terms of openness to innovation, to provide them with quantitative characteristics in order to evaluate the effectiveness in the future.

The creation of innovation, international research and collaborative innovation network expanded the forms of cooperation. Joint innovative programs are constructed on the basis of business processes of participants, involving the ready modules created by partners in the implementation process. Smart procurement, collaborative innovation projects, smart direct investments, joint ventures, and strategic innovation partnerships became universal tools in the field of innovation.

Enkel, Gassmann, and Chesbrough (2009) identify three core processes, which can be differentiated in open innovation:

- (1) The outside-in process, which involves enhancing and extending an enterprise's own knowledge base through the integration of suppliers, customers, and external knowledge sources.
- (2) The inside-out process, which refers to securing the commercial/revenue benefits by bringing ideas to the market faster than by internal development via IP licensing and/or multiplying technology, joint ventures, and spin-offs.

(3) The coupled process, which combines co-creation with partners through alliances, cooperation, and reciprocal joint ventures with the outside-in process (to gain external knowledge) and the inside-out process (to bring ideas to the market).

Dedicated processes, forming the basis of integration, create its new forms and facilitate the development of the most acceptable options for cooperation. Regardless of the process configuration in both open innovations and other models of innovation processes, their basis is knowledge that takes the form of the commodity.

Researchers started operating the –‘just in time knowledge’ concept (Nonaka, 2003). Possessing knowledge is the driving force of the innovation process and hence the competitive advantage which the company can gain in domestic and foreign markets. So, the innovation process model based on knowledge is being formed.

In order to implement the acquired knowledge effectively, the company must have certain characteristics (Dyer and Singh, 1998, p. 667).

- Absorptive capability, that is the ability to learn and assimilate knowledge from external sources;
- Multiplicative Capability, that is the use of knowledge outside the company is associated with the company's ability to multiply and transfer its knowledge to the external environment;
- Relational Capacity that is the ability to create long-term partnerships.

Relational Capacity enables the company to participate in integration formations generating the basis of international research space nowadays. The productive relationships with partners contribute to increase in the innovation component in the final product and generate a competitiveness.

Ju, Li, and Lee (2006) argued that in order to get competitive advantage, the organizations should continuously learn from outside sources. Through the proper knowledge distribution and sharing, organizations can bring the innovation. So, the organizations must develop such channels within the organizations through which the employees share their knowledge with one another.

Lundvall (2006, p.1) noted that “the most fundamental resource in the modern economy is knowledge and, accordingly, the most important process is learning.” The information exchanged involves change of the knowledge base by interacting parties. This process is described as “interactive learning”. Interactive learning involves the learning of the substance (technical learning), communication (communicative learning) and proper behaviour (social learning) (Lundwall, 1993).

The exchange of knowledge and information is only possible in various forms of integration. In the context of project management, integration includes the characteristics, such as combination,

consolidation, communications and integrative actions, which are key to the controlled execution of the project by performing work, successful management of stakeholders' expectations and meeting the requirements. The project integration management involves making decisions about the allocation of resources, finding compromises between competing objectives and alternatives, and managing interdependencies among the areas of project management knowledge (Project Management Institute, 2013).

Collaborative innovation can be considered the highest form of innovation integration, when there are no boundaries, and no legal accountability for performers. Experts are involved in such projects from all over the world. The use of versatile innovation potential in a joint project provides an opportunity to achieve the specified parameters within the scheduled time and with significant saving of resources.

Not having regard to the evolution of models of innovative processes, it is possible to mark them general aim: forming of competition economic grouping on the basis of optimization of charges, use of general base of knowledge and infrastructure.

This purpose setting at the enterprise level provides an opportunity to highlight the key factors for the effective innovation activity of the enterprises and organizations: targeting the needs of potential customers, accessing sources of information and resources (financial, labor). The business processes designing on the basis of integration with other participants of innovation activity enables to optimize the costs of research, production, marketing. The balance of interests of partners within the framework of an innovation project can be achieved by substantiating the forms of such cooperation (joint venture, licensing agreements, franchise, subcontract, joint production, etc.).

2. EU Innovative Development

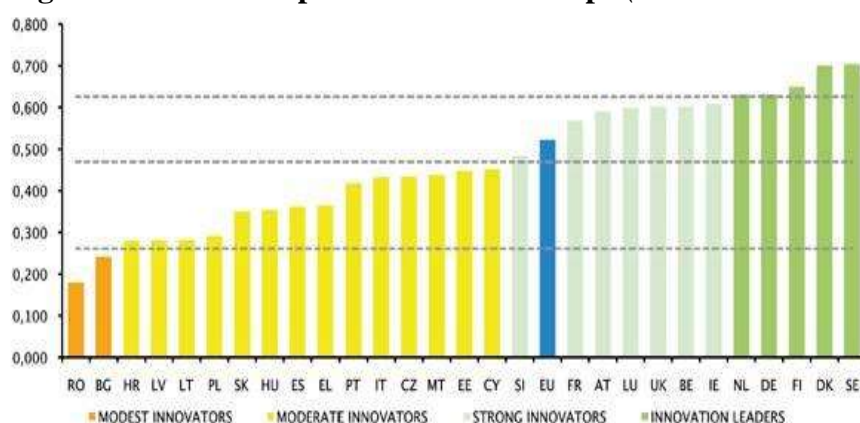
We noted that innovative policies at various levels are a kind of a roadmap for the implementation of innovative projects. Its targets and ways of manifestation depend on the fact whose interests it represents and how they are related to the interests of the agents involved in innovation process. There are the following methodological approaches to the formation of integration structures designed to manage the innovation processes at the national and international levels (Sapelkin and Ivanova, 2012):

- The first one envisages the creation of specialized international organizations intended to coordinate the activities of national innovation actors and innovative infrastructure;

- The second one is the creation of supranational interstate management bodies ensuring the common approaches of the member states of integration entities to the regulatory legal framework, program and information support;
- The third one focuses on the need to unite the existing resources (assets) of economic entities and innovation infrastructure, in order to create the transnational associations (corporations, consortia, holdings) on their basis.

Our study is limited to the second level, i.e. integration entity, which is the EU. Knowledge is a powerful intellectual asset of the EU, promoting the development of industries of different regional command. Regional establishments are not equal. The asymmetry in the levels of innovation potential affects both the overall EU innovation strategy and similar programme documents of the member states.

Figure 1. Innovation performance in Europe (*Innovation Index*)



Source: European Innovation Scoreboard 2016

Figure 1 presents the EU Innovation Index for 2016. The leader is Sweden. Denmark, Finland, Germany and the Netherlands are catching up with the leader. Fast-growing innovators are Latvia, Malta, the Netherlands and the United Kingdom. As follows from the report, the driving force of innovation development for the leaders is formation of a balanced innovation system combining the public and private investment, based on partnerships between science and business and developing on the basis of effective education programs. The leaders of innovation demonstrated openness to cooperation with other countries.

In 2014, a new model was developed in Sweden to prioritize, finance and organize the national and international research infrastructure. The major changes are as follows (The Swedish Research Council, 2014):

- Cyclic process, i.e. prioritization of the infrastructure should be achieved through a recurring cyclical process beginning with the development of the Infrastructure Research Council Guide, followed by decisions on financing of a new or existing infrastructure.
- The use of the Guide to the Swedish Infrastructure Research Council, which is an important tool to determine the priorities of infrastructure, which is implemented on the basis of stakeholders' needs.
- Joint applications from institutions. An application for participation in the development of infrastructure is made by several universities or organizations.

The Swedish Research Council has drafted a proposal for a long-term strategy for European Spallation Source (ESS) in Sweden. In order for Sweden to benefit from hosting one of the largest research facilities in Europe, the government has tasked the Swedish Research Council with stimulating Swedish participation, usage and expertise development related the construction and operation of ESS.

Within the framework of this government assignment, the Research Council has proposed a strategy for ESS in Sweden. The proposed strategy is long-term and extends to 2030, by which time the facility will have been fully operational for several years. The objective is to increase the return on the Swedish investments and ensure that Sweden and Swedish research obtains the maximum possible benefit from the facility being built in the country. ESS in Sweden shall be a world-leading knowledge centre for the sustainable materials of the future (The Swedish Research Council, 2016).

Sweden research network is a vivid example of collaborative innovation model that enables participants to combine their efforts by sharing appropriate infrastructure, knowledge base, to attract leading experts and use the funds of different origins efficient.

Annex 2 provides strategic integration directions in individual EU countries, the EU as a whole, and Switzerland, which is not a part of the alliance, however, holding the leading position in innovation Europe. The main strategic motto in EU is the progressive integration of companies, especially small and medium enterprises, in the global production and marketing chains and provision of funding based on the framework conditions.

The focus is on the world's leaders of innovative development, which is now Switzerland. Switzerland R&D area shows a high level of internationalization of human resources, manifested in international academic mobility. It supports collaborative projects between businesses and universities. The innovative partners are SMEs, academic institutions etc.

It was noted above that Latvia belongs to the fastest growing leaders. Therefore, we also focused on its strategy. Since 2009, it has embarked on supporting cooperation between unrelated businesses,

research and academic institutions. If we analysed the research and development expenditures in the GDP, we would see that their value is close to 1%. However, its possible to watch a planned capacity of these costs, which is the evidence of substantial financial support of the state innovation development strategy. Orientation for cooperation can be seen in strategic areas of the other countries given in the Table 2.

Europe 2020 strategy envisages increase of the share of expenditures on R&D in GDP to 3%. According to 2014 performance, these requirements were met only by Finland, Sweden and Denmark. In the EU, the average rate is 2.03%, lagging behind the leaders' performance (Table 1).

In Finland and Sweden, the figure is consistently higher, i.e. 3%, over the period examined. Denmark, Austria and Germany are gradually increasing the share of their expenditure for R&D in GDP. The UK share of expenditure remains stable over decades and does not exceed 1.7%. In this country, the scope of R&D was developed following a somewhat different scenario. Since 2008, the percentage of business R&D financed from overseas has remained above 20%. In terms of the absolute GDP value of the country, it was USD 2.8 trillion in 2015, which is much higher than in the other EU countries, and therefore the relative importance of expenditures on R&D in GDP will be slightly different. However, this does not diminish the role of the UK in the development of innovative activities.

Table 1. Research and development expenditure (% of GDP)

Country Name	Period									
	05	06	07	08	09	10	11	12	13	14
Finland	3.33	3.34	3.35	3.55	3.75	3.73	3.64	3.42	3.30	3.17
Sweden	3.39	3.50	3.26	3.50	3.45	3.22	3.25	3.28	3.31	3.16
Denmark	2.39	2.40	2.51	2.78	3.07	2.94	2.97	3.03	3.08	3.08
Austria	2.38	2.37	2.43	2.59	2.61	2.74	2.68	2.89	2.96	2.99
Germany	2.42	2.46	2.45	2.60	2.73	2.71	2.80	2.87	2.83	2.87
Belgium	1.78	1.81	1.84	1.92	1.99	2.05	2.16	2.36	2.43	2.46
Slovenia	1.41	1.53	1.42	1.63	1.82	2.06	2.42	2.58	2.60	2.39
France	2.04	2.05	2.02	2.06	2.21	2.18	2.19	2.23	2.24	2.26
United Kingdom	1.63	1.65	1.68	1.69	1.74	1.69	1.69	1.62	1.66	1.70
Ireland	1.19	1.20	1.23	1.39	1.61	1.61	1.53	1.56	1.54	1.52
Greece	0.58	0.56	0.58	0.66	0.63	0.60	0.67	0.70	0.81	0.84
Bulgaria	0.44	0.44	0.43	0.45	0.50	0.57	0.54	0.61	0.64	0.80
Croatia	0.86	0.74	0.79	0.88	0.84	0.74	0.75	0.75	0.82	0.79
Latvia	0.53	0.65	0.55	0.58	0.45	0.61	0.70	0.67	0.61	0.69
Cyprus	0.37	0.39	0.40	0.39	0.45	0.45	0.46	0.43	0.46	0.47
Romania	0.41	0.45	0.52	0.57	0.46	0.45	0.49	0.48	0.39	0.38
European Union	1.75	1.77	1.78	1.85	1.94	1.93	1.97	2.01	2.03	2.03
World	1.99	1.99	1.97	2.03	2.06	2.06	2.05	2.13	2.12	2.14

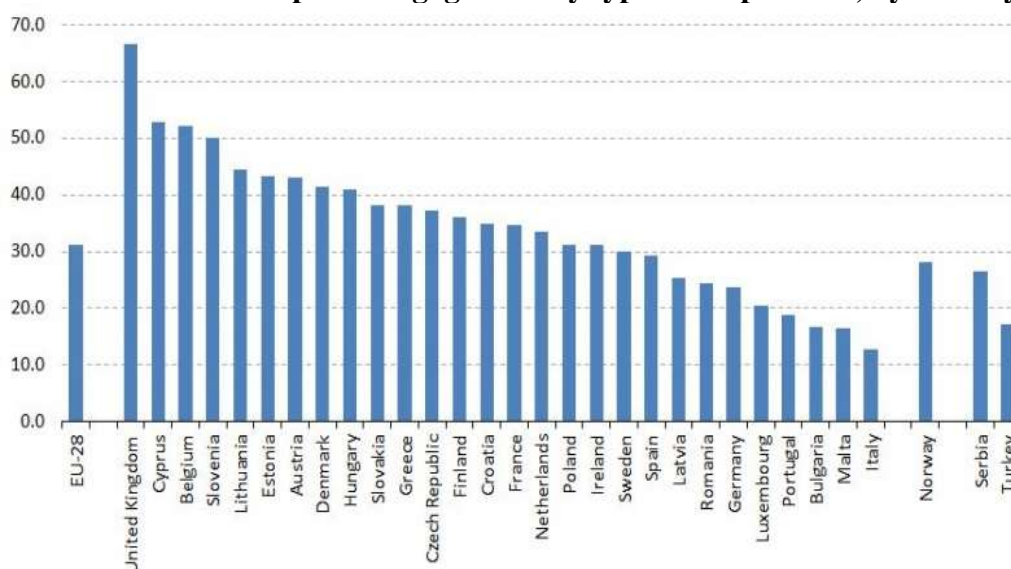
Source: Eurostat. The table is presented in abbreviated form

According to 2015 performance, the difference in the share of expenditures on R&D between the leaders and outsiders differs almost 8 times. In terms of innovative development asymmetry, the EU has to put a lot of effort to equalize the basic parameters forming an innovative strategy at the regional level.

The UK has the largest number of enterprises participating in various kinds of cooperation. According to 2012 performance, the share of innovative enterprises using cooperation with other agencies in the UK was 66%, almost twice as much as in the whole EU. The most active countries in this area include Cyprus, Belgium and Slovenia. In Sweden, the leader of innovative development of the EU, only 30% of innovative enterprises are involved in cooperation (Figure 2).

University of Auckland Business School researchers say (University of Auckland, 2017) small businesses need to get used to the idea of collaborating with other companies if they want to boost their bottom lines. Researchers drew on their earlier extensive survey of SMEs in manufacturing and service industries, called “Growing New Zealand Businesses”. They compared the three strategies that owner-managers in the survey said they used for innovation: training-only, collaboration-only, and combined collaboration-and-training. Researchers analysed the responses of 839 participants in the Growing New Zealand Businesses survey.

Figure 2. Innovative enterprises engaged in any type of cooperation, by country, 2012



Source: Europe 2020 indicators - research and development

The mean number of employees was 25, 45 percent of businesses were micro (1-9 employees), 40 percent were small (10-49) and 15 percent were medium-sized (50-249). They found:

- For young firms (15 years or younger), collaboration alone led to a positive impact on innovation – especially for high-tech firms

- For mature firms (over 15 years), both training and collaboration strategies were important for success
- Training alone gave no innovation boost to either young or mature firms.

In the conditions of asymmetry of innovative development, the mechanisms of integration get the signs of internationalization, strengthening of state-private partnership (including on the basis of private innovative capital financing), and university co-operation, scientific - research and commercial structures. The countries-leaders of innovation development are interested in efficient financing of innovation activities by prioritizing, attracting partners and distributing financial commitments among stakeholders. The development of economy of knowledge needs the use of significant financial resources based on a combination of various financial instruments. Reducing the disparities in innovation development should be based on a balanced regional innovation policy that takes into account the existing innovation potential of enterprises and organizations and facilitates the exchange of experience in the field of implementation of innovative projects.

Conclusions

The mechanisms of integration in science and innovation can be quite diverse and include participants with different resource support, level of knowledge and experience. The EU faced the problem of different levels of development of its member states in the field of innovation as well. The capabilities can be aligned through redistribution of funds. One should not forget the fundamental Riesenhuber criteria, defining the nature of research priorities:

- research conducted on so vast a scale that single Member States either could not provide the necessary financial means and personnel, or could only do so with difficulty;
- research which would obviously benefit financially from being carried out jointly, after taking account of the additional costs inherent in all actions involving international co-operation;
- research which, owing to the complementary nature of work carried out at national level in a given sector, would achieve significant results in the whole of the Community for problems to which solutions call for research conducted on a vast scale, particularly in a geographic sense;
- research which contributes to the cohesion of the common market, and which promotes the unification of European science, and technology; as well as research which leads where necessary to the establishment of uniform laws and standard.

As the analysis shows, the developed countries have long ago understood the effectiveness of the mechanism of cooperation in various fields of science and innovation. This trend is clearly demonstrated by the UK. Bringing innovation to business structures enables the efficient management of public funds on the one hand, and attracting private capital on the other.

The EU experience in innovation network forming and implementation of various forms of integration have long crossed the boundaries of the economic union. The framework system allows the countries which are not EU members to participate in various projects. The method of selecting the projects for funding focuses on innovative potential of the creative team, which includes knowledge, experience, quality of management, existing logistics etc. In international innovation process, networks play the role of a consolidator and integrator of efforts to achieve a common goal.

Selective study of the strategic integration directions in the innovation field of same EU countries and key indicators of innovation activity gives reason to assert that the unevenness of innovation development corresponds to the directions and forms of integration, which are being used. Leading countries take an active part in global science and innovation by creating innovative networks, international clusters based on a high level of internationalization of human resources. Instead, modest innovators are focused on collaborating with regional innovation networks, formation of clusters with the involvement of academic institutions, universities, business structures of the regional level and municipalities.

Innovation development strategies need to be periodically monitored and adjusted, taking into account changes in the models of innovation processes. Since we have limited our research by supranational interstate management bodies to which the EU belongs, the results of the study also relate to those integration mechanisms and models of innovation that have developed within this economic union. There is a lagging EU spending on research and development from the world level, as well as from countries such as South Korea, Japan, and the USA. The opportunities of private business in financing research are underestimated.

Japan's and South Korea's private business participation in research funding amounts to 75% of all costs. In the EU, this figure is 55%. Not all innovative enterprises are involved in various forms of cooperation, which limits the existing innovation potential and constrains the synergy of mutual development.

In our opinion, in order to equalize the asymmetry of innovation development in the EU countries, it is necessary to conduct a revision of the models of their national innovation systems on the subject of their compliance with the goals of innovative development; to pay attention to the

development of venture capital markets; to investigate the impact of taxes on the activation of investment processes.

Even the most advanced forms of international integration of innovation will always evolve in space and time, looking for the more effective mechanisms of cooperation. Subsequent research will be aimed at exploring the forms of cooperation and models of innovation in countries that are leaders in the world.

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Annex 1

The evolution of the innovation processes models

Period	Name of the stage	Features	Integration links
From 1950 to the mid-1960's	Technology Push	Companies focused predominantly on scientific breakthroughs. R&D was considered as corporate overhead and relegated to an 'ivory tower' position. Innovation occurred at the fast growing multinationals isolated from universities.	No links
The mid 1960's to early 1970	Market Pull	The central focus became responding to the market's needs. Cost-benefit analyses were made for individual research projects including systematic allocation and management of resources. Stronger connections were initiated between R&D and operating units by including product engineers in scientist run research teams in order to decrease time to market.	Between R&D and operating units
From the mid 1970's to the mid-1980's,	Coupling Of R&D And Marketing	The strategic focus was on corporate consolidation and resulted in 'product portfolios'. Companies moved away from individual R&D projects. Marketing and R&D became more tightly coupled through structured innovation processes. Operational cost reduction was a central driver.	Between Marketing and R&D
From the early 1980's to the mid-90's,	Integrated Business Processes	The focus was on integrated processes and products to develop 'total concepts'. Typical of this fourth generation was the 'parallel and integrated nature' of development processes. Externally, strong supplier linkages were established as well as close coupling with leading customers.	Communication with suppliers and leading clients
From the 1990's	System Integration & Networking	Business processes were automated through enterprise resource planning and manufacturing information systems. Externally, the focus was on 'business ecosystems'. Advanced strategic partnerships were setup as well as collaborative marketing and research arrangements such as 'open innovation'.	Advanced strategic partnerships, collaborative marketing and research arrangements 'open innovation'.
From the 2000's	Hidden Knowledge And Quick Learning	The competitiveness and advantages of the organization are mainly based on not explicit, but hidden knowledge and training	Economic net-work (enterprise, institutions, departments, various forms of cooperation, technical infrastructure for the exchange of knowledge)
From the 2000's	Open Innovation	Research field expansion allows to find and implement ideas faster than with traditional covered "model of innovation"	Long-term partnerships relations
From the 2010's	Innovation network/ international research networks	They foster the very culture of collaboration, bringing together corporate units (R&D, business development, marketing, etc.), provide intellectual and operational support for the company's external innovation programs	Business processes of the enter-prise are involved in the implementation of external innovation programs
	Collaborative Innovation Network (CoIN)	A using of the internet platforms such as email, chat, social networks, blogs, and Wikis to promote communication and innovation within self-organizing virtual teams. CoINs rely on modern technology such as the Internet, e-mail, and other communications vehicles for information sharing. Creativity, collaboration, and communication are their hallmarks	Smart procurement, collaborative innovation projects, smart direct investments, joint ventures, and strategic innovation partnerships

Source: Davis et.al., 2015; Chesbrough and Schwartz, 2007; Chesbrough, 2003; Enkel et.al., 2009; Giannetto and Wheeler (2000)

Annex 2

Directions of strategic integration in the innovation sphere

The EU	<ul style="list-style-type: none"> - better integration of capital markets; - skills training; - the progressive integration of firms, especially SMEs, in global value chains, and - more lending for innovative and industrial projects. - improve framework conditions and access to funding for research and development in order to transform innovative ideas into products and services that provide growth and employment
Switzerland	<ul style="list-style-type: none"> - a high level of internationalization of human resources, both in businesses and universities, and favourable conditions to attract FDI. - support of both outward and inward international scientific mobility - a variety of programs to provide financing, professional advice and networks, in particular to start-ups and SMEs - the Commission for Technology and Innovation (CTI) Vouchers, with a budget of (CHF 1 million in 2014), helps SMEs to get an expert assessment of their innovation projects and to search for innovation partners; CTI grants for collaborative R&D projects, with a 2014 budget of CHF 117 million), financially supports joint projects between firms and HEIs; CTI National Thematic Networks (NTN), 2014 budget of USD 1.9 million (CHF 2,5 million), aims at providing SMEs with access to science-based research findings; CTI Innovation Mentors (IMS), 2014 budget of (CHF 1 million), provides mentorship to SMEs on innovation challenges and to search for innovation partners in academic institutions.
United Kingdom	<ul style="list-style-type: none"> - participation in global science and innovation - the UK has become a partner of choice for research collaboration, with 48% of all UK articles in 2012 resulting from international collaboration - in 2011, the UK attracted almost \$7 billion of overseas-financed R&D. This is the same as in Canada, Finland, Japan, China, and Russia combined, more than either France or Germany (\$4 billion each) and just under half that of the USA (with \$16 billion) - since 2008, the percentage of business R&D financed from overseas has remained comfortably above 20% for the UK, which compares to less than 14% of all our comparator countries
Germany	<ul style="list-style-type: none"> - German industry and science have strong links, and a very high proportion of public research is funded by industry - creation of new instruments to improve regional, national and international networking between science and industry - funding of efforts for internationalisation of clusters, developing technology specific open innovation research programmes and dual vocational training systems, and creating incentives for public procurement by municipalities - The Kopernikus Projects (from 2016) bring together scientific institutions and universities, private companies, and organised civil society in large consortia to work together for up to ten years to develop technological solutions for the transformation of the energy system. - the strategic development and intensification of collaboration with firms and other societal stakeholders - implementation of new networks (Innovationsforen Mittelstand) and making use of existing ones to develop strategic cooperation between SMEs and strong partners (KMU-NetC)
Finland	<ul style="list-style-type: none"> - expansion of the economic and social impact of research and development through enhanced co-operation between HEIs and businesses and further commercialisation. - a key tool to improve the R&D impact is to encourage the profiling and division of work between HEIs and state-funded research institutes. - encouraging the municipalities to utilise their significant future investments as platforms to develop innovations in cooperation with businesses. - Government has also allocated USD 15.2 million PPP (EUR 14 million) for Innovation Funding Agency Tekes to speed up commercialisation of research results by strengthening cooperation between HEI's, state-funded research institutes and companies - promotion of international mobility of researchers by providing grants for research stays and joint projects abroad.
Czech Republic	<ul style="list-style-type: none"> - the Czech Republic is also currently preparing an Action Plan for International Cooperation of the Czech Republic in R&D and Internationalisation of R&D system in the Czech Republic for the years 2017 2020, which will also address human resources from the point of view of international mobility

	<ul style="list-style-type: none"> - Major national initiatives to promote the internationalization include CZ COST, EUREKA CZ, KONTAKT II, II and INGO EUPRO II program to be implemented in 2017 and gradually replaced the program INTER-EXCELLENCE (2016 2024). - The Technology Agency of the Czech Republic (CTA) administers the following programs: ALFA (2011 19), which aims to stimulate R&D cooperation between businesses and research organizations; DELTA (2014 19), which is intended to support collaboration in applied research and experimental development through joint projects between enterprises and research organizations; ZETA (2012 17), which aims to increase co operation between academia and companies. - Competence Centres (Centra Kompetence 2012 19) support the development of long-term collaboration between the public and private sectors.
Latvia	<ul style="list-style-type: none"> - the system is rather well connected to regional, EU and, to a lower extent, global knowledge and innovation networks - The Baltic inter-ministerial expert group and the Baltic-Nordic co-operation on research infrastructure are regional platforms for co-operation and assistance. - the Programme on Co-operation in Science and Technology between the Ministries of Education and Science of Ukraine and Latvia intends to trigger exchange and co-operation between researchers in both countries - as a part of the Guidelines of Science, Technology Development and Innovation 2014-20 Latvia launched an EU financed post-graduate grant programme to spur international mobility of young researchers willing to work abroad. - since 2009, the industry-driven cluster initiatives have received support in order to promote collaboration between unrelated companies, research, educational and other institutions and to improve the competitiveness of enterprises, increase export volumes and promote innovation and development of new products. - support for cooperation between industry and academia and commercialization of research results, new product and technology development and the expansion of innovative and technology-oriented companies as well as new financial instruments (e.g. seed and venture capital) for innovative companies

Source: The Innovation Policy Platform (IPP), European Commission (2010, 2011)

Trust-like mechanisms – effective tools for boosting the competitiveness of the EU - theoretical and terminological insights

Irina GVELESIANI *

Abstract

*Today the EU is being confronted with internal and external economic challenges. They may become a threat of European stability. Significant strategies must be implemented for the promotion of a sustainable development reflected in economic resilience. The paper deals with the question of boosting the competitiveness of the EU via a rapid implementation of the **trust-like mechanisms** - “analogues” of the common law **trust**. It is mainly oriented on the method of a comparative analysis and presents certain prorated fruitful ways of rapid implementation of the **trust-like devices** in civil law jurisdictions. The outcomes of the paper will be useful for the successful planning of the European entrusting processes, because they indicate to the necessity of the implementation of the American models of mutual funds and the beginning of the utilization of an express trust, which will serve a great variety of socio-economic purposes.*

Keywords: economy, law, strategy, trust, trust-like device

Introduction

The European Union was created for the promotion of security, prosperity and economic development. In the context of today’s globalizing processes, the EU is being confronted with internal as well as external economic and political challenges. The given challenges may become a threat of European stability and prosperity. Significant long-term strategies must be implemented for the promotion of a sustainable development reflected in economic and political resilience. The given paper researches the question of boosting the competitiveness of the EU via a rapid implementation of the **trust-like mechanisms** - the “analogues” of the common law **trust**. Moreover, it deals with the certain theoretical and terminological insights. The paper is mainly oriented on the method of a comparative analysis and presents certain prorated fruitful ways of the rapid implementation of the **trust-like devices** in civil law jurisdictions. The outcomes of the paper will be useful for the successful planning of the European entrusting processes, which will raise the resilience and integrity of the EU.

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1. The Common Law *Trust*

*“In common law countries, the trust is one of the most utilized tools of succession because of its ease, flexibility, and informality” (Devaux et al., 2014, p. 91). This legal institution makes distinction between legal and equitable titles. Its technic is regarded as omnipresent. However, in the majority of European countries the **trust** has been viewed sceptically, because it seemed almost incompatible with the civil law jurisdictions. Despite this fact, the introduction of the **trust** mechanism has become inescapable – the appearance of “the trust in a commercial context within Anglo-American law, more and more frequent in the twentieth century, led to a similar phenomenon in the civilian legal systems that had previously received this institution in the context of succession” (Cumyn, 2012, p. 13).*

1.1. The Origin of the *Trust*

The origin of the **trust** causes many debates. However, it is strongly believed that this juridical institution originated from its historical antecedent - the legal arrangement *use*. “Under the terms of use, the feoffor entrusted the feoffee with the land to the use of himself, as cestui que use, or for the benefit of persons designated by him” (Sandor, 2015, p. 48). More precisely, “[f]eoffors would convey land to feoffees, who then conveyed land to third persons - cestui que use - named in the feoffors’ wills. Such transactions made use of the terms “use,” “confidence,” and “trust” interchangeably” (Buhai, 2009, p. 558). The process of entrustment was denoted by the term *enfeoff* (*feoff*), which implied “... to place someone in possession of an estate in fee” (Statsky, 1986, p. 320). The term *fee* meant “an estate in which the owner had full powers of disposition” (Statsky, 1986, p. 318). More precisely, *fee* came from “the old Fr. *Fe*; Lat. *Fides*: and a *fee*, any thing granted by one, and held by another, upon oath or promise of fealty or fidelity” (Richardson, 1836, p. 677).

During the centuries, the origin of the *enfeoffment to use* has raised many questions. It always seemed quite obscure. However, a flexible and a profitable nature of the *enfeoffment to use* facilitated its spread and intensive utilization throughout the centuries. The major priority of the employment of this legal institution was a skilful avoidance of certain rules about the bequest of a land:

almost all the land in England could not be left by will, that Lords would get windfalls for wardship and marriage if tenants’ heirs were under age 21, that surviving spouses were entitled

to life interests in certain land, and that the land could not be conveyed to the Church without the king's licence (Cranmer et al. (eds.), 2016, p. 54).

The employment of the *uses* resulted in the avoidance of certain incidental obligations (the so-called *relief*) – escheat, wardship, forfeiture, etc.

It has already been mentioned that the origin of the *enfeoffments to uses* is obscure, but it seems, that “the gentry themselves were the first to employ the device and that only from the 1340s onwards did the nobility increasingly follow the example set by their social inferiors” (Acheson, 2003, p. 80). It can also be noted that the formation and utilization of the *use* was stipulated by the fear and fraud: “fear in times of troubles and civil wars to save inheritances from being forfeited; and fraud to defeat due debts, lawful actions, escheats, mortmains, etc.” (Sandor, 2015, p. 42). The *use* was widely utilized during the War of Roses (1455-1487). According to Serjeant Frowyk, by 1489 “the greater part of the land of England was in feoffment upon trust” (Baker, 2003, p. 654). The *feoffment of trust* or *feoffment to uses* was “a legal device in the sense that it was frequently recommended by conveyancing counsel, in order to achieve clear legal consequences, such as the power to devise. Lawyers were therefore well acquainted with trusts and commonly served as feoffees” (Baker, 2003, p. 654).

We believe that the study of the history of the development of the *trust* vividly indicates to its useful and strategic character, especially, during the planning of the future of one's estate.

1.2. The Contemporary Trust

“Rather more important than the origins of the trust, however, are the difficulties there are in translating it into other legal systems, particularly those from the civilian camp” (Matthews, 2013, p. 243). “The purposes for which we can create [common law] trusts are as unlimited as our imagination” (Devaux *et al.*, 2014, p. 112). Moreover, the *trusts* have a great variety of uses in the contemporary life. They are created not only for the private reasons, but for the charitable or business purposes as well. They are mainly used:

- for the benefit of private individuals (a *private trust*);
- for the management of business affairs (the *Massachusetts trust* or a *business trust*);
- to benefit future generations... through the establishment of successive equitable interests in property, to benefit employees through the holding of a company's shares or other assets in

trust for their benefit, or hold funds for public investment (a *mutual fund* or *unit trust*) (Gray (ed.), 2004, p. 871), etc.

Generally, the legal institution of the *trust* can be defined as:

an obligation enforceable in equity under which a trustee holds property that he or she is bound to administer for the benefit of a beneficiary or beneficiaries (a private trust), or for the advancement of certain purposes (a purpose trust)... Trusts are established expressly by a settler in a trust deed or a testator in a will (an express trust) or by implication (a resulting trust). They may also be established by operation of law (a constructive trust) (Gray (ed.), 2004, p. 870).

Among different types of the *trust*, an outstanding position is occupied by an *express trust*. It can serve

a wide range of both social and economic purposes. It is suitable, in particular, for serving people who are unable or incompetent to manage their property, or who do not wish to make their ownership public, for charitable purposes, the administration of investments, the remuneration of staff, the uniform management of financing sources, protection of property, tax planning, the management of jointly-owned property, etc. (Sandor, 2016, p. 1189).

During the description of the modern *trust instrument*, we have to consider its twofold nature and the British attitude towards the absoluteness of ownership. It is a well-known fact, that the contemporary English juridical system embraces a non-absolute notion of ownership:

- Firstly, the “English law adopts a system of relative titles as opposed to absolute entitlements” (Häcker, 2009, p. 35-36);
- Secondly, the recognition that equitable interests are in some sense “proprietary” has led to the idea of ownership being “split” into bare legal title and an equitable (or beneficial) interest” (Häcker, 2009, p. 35-36).

This division has historical roots. In the contemporary economic and juridical landscapes it results in the simultaneous existence of a legal ownership and an equitable one.

Therefore, the modern *trust* can be described as an arrangement, whereby property is managed by one person (a *trustee*) for the benefit of another (a *settler* or a *beneficiary*). The *trust* has the following major characteristics:

- a) the assets are presented as a separate fund;
- b) title to the trust assets stands in the name of the trustee or in the name of another person on behalf of the trustee;
- c) the trustee has the power and the duty ... to manage, employ or dispose of the assets in accordance with the terms of the trust and the special duties imposed upon him (Convention of..., 1985).

It has already been mentioned that the British *trust* is largely used for commercial purposes. “This may be, for example, for the purpose of making investments in business. The unit trust (known as a mutual fund in the USA) is an example of this, with a long and respectable history” (Matthews, 2013, p. 249). In the context of commerce, the *trust* can also be utilized for the creation of a pension fund or a joint venture business. Actually, British pension funds made London a dominant financial centre throughout Europe. The trustees who possess these funds

can become large players in the stock and capital markets, with considerable liquidity... Moreover, pension funds are paid for by workers today to save for their retirement tomorrow. They go to reduce the impact of the current demographic changes in the developed world whereby the number of people in active employment goes down while the number of persons in retirement goes up. In countries where the majority of pensions of persons retiring are paid for out of taxation of those still in work, this is a serious problem, which will become more serious as the years pass (Matthews, 2013, p. 250).

Therefore, we believe that the popularization of the *trust* in the majority of European countries was facilitated by its extremely versatile character and a growing worldwide importance of entrusting commercial transactions. The variations of the *trust* have already appeared in the commercial and juridical spheres of Germany, France, Italy, Russia, Romania, Canada, etc. The “appearance” was rather difficult and prolonged, because the transplantation of English conception of dual ownership seemed almost impossible – the civilian systems treated ownership as absolute and indivisible. We discuss some European trust-like mechanisms and their peculiarities.

1.3. Modern German *Trust-like Mechanisms*

It is a well-known fact that the greatest inconsistency between English and German jurisdictions is presented in the area of Property Law. German legal system comprises an absolute notion of ownership, which may be equalized with the ancient *dominium* - “the owner of a corporeal object

is the person who is in principle entitled to “deal with the thing as he pleases and exclude others from any interference”. It belongs to him, and only him” (Häcker, 2009, p. 36).

Despite these circumstances, the study of the contemporary German reality reveals the existence of several *trust-like devices*, which work differently, but perform functions similar to the *trust*. These devices can be united under the umbrella term *Treuhand*. This unity comprises the following institutions:

the Testamentvollstreckung and Nacherbschaft, which are used to control succession to property for several legatees (and typically for many years), the Stiftung which serves to collect and administer funds for charitable purposes, and the general Treuhand by which an estate is administered for the benefit of one or more persons (Grundmann, 1998, p. 489).

The *Treuhand* usually considers the transference of an ownership based on *Vertrauen* (trust) and *Treue* (loyalty). It comprises the following major elements:

- **Treugeber** (settlor/beneficiary) – a person, who transfers the full right *in rem* to the other person, who is obliged to deal with the property in the manner specified by the contract;
- **Treuhänder** (trustee) – a person, who is obliged to deal with the transferred property in the manner specified by the contract.

Although the **Treugeber** transfers his juridical ownership to the **Treuhänder**, he retains an economic ownership. Therefore, a trustee (**Treuhänder**) becomes a legal owner and his/her duties are called fiduciary duties: “The *Treuhänder* acquires a full and unrestricted title to the *Treuhand* assets, whereas the beneficiaries’ interests are, at least in theory, merely the ordinary rights *in personam* of parties to a contract” (Kotz, 1999a, p. 93).

One of the varieties of the *Treuhand* – the *Stiftung* (the German foundation) – has already invaded the German legal system and a significant part of the economic activities. Generally, foundations have a long history of existence. They were

used particularly as structures to hold property for religious purposes in the Medieval period in continental Europe. The Catholic Church, and its various manifestations, existed as foundations. In countries like Austria, Germany and Liechtenstein we have had Stiftungs ... for many hundreds of years (Baker, 2007).

Nowadays, the *Stiftung* is similized to the *charitable trust* according to its structure and activities. Besides, it consists of two major parties:

- **Stifter** - a *founder*, who transfers a patrimony to a newly-created legal entity and sets up rules of administration;
- **Stiftung** - a newly-created legal entity (a *foundation*), which administers assets, but is supervised by the Bundesland.

A variety of the *Stiftung* is the *Stiftungstreuhand* or *unselbständige Stiftung* (*foundation trust* or *dependent foundation*), which considers the transmission of a smaller amount of the property. The *Stifter*

transfers assets as a gift inter vivos or by will to another natural or juristic person – e.g. a university, a church, a museum, a charitable association - on the understanding that the transferee keeps the assets transferred separate from his own assets and that the gains made from the assets shall be used to further the charitable purpose prescribed by the founder” (Kotz, 1999b, p. 52).

It is worth mentioning that in case of the *Stiftungstreuhand* or *unselbständige Stiftung* (a *foundation trust* or a *dependent foundation*), the trustee’s creditors are not able to take legal actions in respect to the separated assets. These actions can be impeded by a founder or by a beneficiary (beneficiaries). This is a unique example of the *Sondervermögen* (a separated patrimony).

We believe that the existence of the *Sondervermögen* emphasizes the fact that the German law “accepts” the notion of “splitting-up” - owning of more than one patrimony by one person. Such separation of assets is determined by the concept of the patrimony than that of the property, because the German property law is not based on the distinction between a legal property and an equitable one. Therefore, all the above mentioned enables us to conclude that the ongoing tendencies regulating German entrusting relationships facilitate Germany’s involvement in the processes of harmonization of the legal systems of all European countries.

1.4. Modern Canadian *Trust-like Mechanisms*

The contemporary Canadian reality vividly presents the bijurality. The formation of bijuralism has been stipulated by the historical development of the country (the cohabitation of English and

French Canadians in history) and by the influence of the colonization. The colony was first subjected to the French law. However, the official introduction of bijuralism in Canada began with the Quebec Act of 1774, which

restored civil law “in matters of property and civil rights”... Conversely the Quebec Act provided that common law would govern in all but private law matters; this is the basis for the mixed civil and common law nature of Quebec law where common law and civil law apply respectively in public law matters such as administrative law, criminal law and other non-private law matters, and in private law matters (Cuerrier, 2016).

It is worth mentioning, that “an embryonic regime of trust as a variant of a legacy or of a testamentary substitution was incorporated into 1866 Civil Code of Lower Canada (the ‘old Code’) at articles 869 and 964” (Roy, 2010, p. 1). These articles discussed the transference of property, which was controlled by a transferee for the benefit of a designated person or for the indicated purposes. By 1867 “the two distinct legal systems were well entrenched. Quebec preserved its civil law while the other provinces retained their common law systems” (Lloyd and Pawley, 2005, p. 152).

Nowadays, the “Civil Code of Quebec is a vital practical and historic component of the unique fabric of Canadian society” (Lloyd and Pawley 2005, p. 164). It presents 38 articles (from 1260 to 1298) dedicated to the **trust** mechanism and defines this juridical institution in the following way: “A trust results from an act whereby the settlor transfers property from his patrimony to another patrimony constituted by him, which he appropriates to a particular purpose and which a trustee undertakes, by his acceptance, to hold and administer” (Civil Code of Quebec, 1991).

Each element of an entrusting relationship can be characterized in the following way:

A **settlor** (*constituent*) is a creator of the trust, which can be set up in his/her lifetime (an *inter vivos trust*) or upon his/her death (a *testamentary trust*) before the distribution of the property between the heirs. A settlor may be a trustee or one of the trustees. A settlor must act jointly with an independent trustee;

A **trustee** (*fiduciaire*) can be any natural or legal person authorized by the law, which “may alienate the trust property by onerous title, change it with a real right, change its destination and make any form of investment” (Roy, 2010, p. 9). A trustee is a “full” administrator of the property ensuring its maintenance and preservation. She/he is obliged to increase a patrimony and to utilize it for a specific purpose indicated in a **trust agreement**. More precisely, a trustee

has neither “legal ownership” of the trust property, [...], nor “sui generis ownership” [...]. Instead of a proprietary entitlement, the trustee has “powers” (pouvoirs) of administration to be exercised on behalf of the beneficiaries, as opposed to “legal rights” (droits subjectifs) to be exercised in his or her own interest (Emerich, 2013, p. 35).

A **beneficiary (bénéficiaire)** can be any natural or legal person (even another trust) determinate (or determinable) at the time of the creation of the **trust**. The term **beneficiary** must not be confined

to a person, but may be impersonal; for an impersonal benefit or purpose. The beneficiary may be directly determined, determinable or abstract, according to the type of trust. In a personal trust, the beneficiary must be one or more determinable persons (1267), while in a social trust the benefit may be one of general interest such as education (Claxton, 2016, p. 292).

In case of a **discretionary trust**, “the settlor may either reserve for himself or herself or give to the trustee, or to a third party the powers to appoint the beneficiaries of the trust and determine their share (art. 1282 C.C.Q.)” (*Dictionnaires de droit privé*). It is worth noting that according to the terms of a trust contract, beneficiaries can have different rights, for example, they may draw an income from the trust (up to a certain age).

It is worth mentioning that the Quebecoise **patrimoine** comprises a non-segregated property, because it does not belong to a person who has the power of its administration and disposition. Non-segregated assets may consist of any kind of present or future property: real, personal, movable, immovable, incorporeal, corporeal. “As regards future property one may conclude that a trust created to hold future property only, even if accepted by the trustee, will not be constituted and exist until some property is acquired by the settlor or the trustee” (Claxton, 2016, p. 286).

Therefore, the transference of the property is the major essence of entrusting relationships. The given statement is reinforced by an outstanding ability of the **trust** to provide the formation of **a foundation/la fondation** - “A foundation created by trust is established by gift or by will in accordance with the rules governing those acts” (Civil Code of Quebec, 1991). Similarly to the **trust property**, the property of a foundation constitutes **an autonomous patrimony/un patrimoine autonome** which is distinct from a patrimony of a settlor or any other individual. **La fondation** can be oriented on:

- the making of profit;
- the operation of an enterprise;

- the fulfilment of a socially beneficial purpose.

The last statement seems to be in tune with the opinion of well-known French jurist Pierre Lepaulle, whose arguments have been influential in some civilian receptions of the Anglo-American *trust*. Pierre Lepaulle argued, “The common law trust could be best understood, in civilian terms, as a patrimony affected to a destination or purpose” (Smith, 2008, p. 382). Moreover, he believed that

none of the settlor, the trustee or the beneficiary was essential to the common law trust... He argued that the only things that were essential were that there was a patrimony, and that it be affected or appropriated to a purpose (Smith, 2008, p. 385).

We believe that the appropriation to a purpose can be considered as the major essence of the Quebecoise *patrimoine*. However, the negation of a settlor’s and a trustee’s merits is impossible neither in the Quebecoise nor in the Anglo-American entrusting relationships. A settlor establishes the *trust*, while a trustee administers a transferred property. Without these parties, the *trust* is almost void. The given idea is well developed in the Article 1261 of the contemporary Civil Code: “Le patrimoine fiduciaire ... constitue un patrimoine d’affectation autonome et distinct de celui du constituant, du fiduciaire ou du bénéficiaire, sur lequel aucun d’entre eux n’a de droit réel” (Lupoi, 2000, p. 308).

Therefore, we believe that the study of the Canadian entrusting relationships indicates to a vivid fact - the Quebecois *patrimoine d’affectation* is not an example of a segregated property. It constitutes an autonomous patrimony - neither the *constituent* nor the *fiduciaire* and the *bénéficiaire* have real rights in the transferred assets. Consequently, the Quebecois *patrimoine d’affectation* can be regarded as a unique type of the patrimony established by the *trust-like device*.

1.5. Modern French *Trust-like Mechanisms*

Before the appearance of the *fiducie* (at the end of the 20th century), the French scholars expressed their concerns regarding the probability of the implementation of the *trust-like transactions* in the French reality. They named the following major reasons:

- Firstly, the impossibility of the implementation of the duality of ownership in the French economic and legal domains;

- Secondly, the general “inability” of allowing assets “to be set aside for a special purpose (*patrimoine d’affectation*), thus ruling out the possibility of property forming a separate fund that cannot be reached by a trustee’s creditors” (Rémy, 1999, p. 131).

Despite these concerns and circumstances, the *fiducie* was implemented in the French reality as a vivid category of a "transplant". Nowadays, it represents a triangular relation, which considers the transference of rights on a special property for the fulfilment of a particular goal. The given transference implies the following:

the settlor (constituent) entrusts existing or future assets, rights or security to the trustee (fiduciaire), who manages these for the benefit of one or more beneficiaries. French law does not classify the legal status of the trustee; he is deemed to be either an agent or an administrator, only the manager (agissant, actor) of the trust property (patrimoine fiduciaire) (Sandor, 2015, p. 313).

In certain cases, the *constituant* appoints the *protecteur*, which controls the activities of the *fiduciaire*. However, sometimes the *constituant* and the *fiduciaire* perform the functions of the beneficiaries.

Therefore, the contemporary French entrusting relationships consider the following participants:

Constituant - a transferor of the property, which is presented by any natural person or legal entity;

Fiduciaire - a transferee represented by "a banking, insurance, or financial professional, or an avocat (attorney), whose role contributes to ensure protection for the constituent" (Devaux *et al.*, 2014, p. 110);

Bénéficiaire - a receiver of the benefit derived from the management and exploitation of the property transferred to the *fiduciaire*. In particular cases, the *constituant* or the *fiduciaire* may become the *bénéficiaire*;

Protecteur – a protector, who controls the actions performed by the *fiduciaire*.

An object of the entrusting relationships is presented by the transmitted assets – the *patrimoine fiduciaire*. The composition of the latter enables us to single out two major forms of the French *trust-like mechanisms*:

- the trust by way of “security (*fiducie sûreté*), where the constituent-debtor transfers to the fiduciary properties, securities or rights for its debt to create security, and

- management trust (*fiducie gestion*), where the transfer of assets is made in view of its management” (Devaux *et al.*, 2014, p. 112).

It is worth mentioning that according to the contemporary French law, a trustee is usually allowed to hold one *patrimoine d’affectation* (or several *patrimoine d’affectation* -s), which is separated from his own patrimony. Therefore, the segregation of assets takes place. Moreover, the Article L 526-17-I of the French Civil Code

provides the transfer, based on documents inter vivos, of the patrimony by appropriation, which can occur both under a document of onerous title and under a free of charge document, respectively: sale, donation, contribution to a company’s patrimony either to natural persons or legal persons (Tuleaşcă, 2014, p. 13).

Therefore, the French *fiducie* is oriented on the formation of the *patrimoine d’affectation*, which is not a genuinely autonomous ownership. It is not completely separated from the personal ownership of a settlor or a trustee. Moreover, the *patrimoine d’affectation* does not represent a source of wealth of a trustee, because he/she does not act in his/her own interest. All the profits gained from the exploitation of the *trust assets* belong to a third person. The second paragraph of the Article 2025 of the French Civil Code provides that “where the *fiducie* patrimony is insufficient, the creditors of the *fiducie* can seek payment of their claim from the patrimony of the settlor” (Emerich, 2013, p. 24).

The practice shows that the French *fiducie* has already “crept” into France’s business sphere. The given practice

developed fiduciary contracts as conventions de portage [securities repurchase agreements], which are in fact forms of a management fiducie. This in effect involves agreements by which a person, the porteur [bearer] undertakes as regards another party, the donneur d’ordre [principle] to buy or subscribe shares and then, at the end of a certain period of time, and at an agreed price, to transfer them to the principle or to a third-party (Grimaldi, 2011).

Therefore, we believe that the French legal and economic spheres present an innovative mechanism of entrusting relationships. The French *fiducie* is oriented on the formation of the *patrimoine d’affectation*, which is not completely separated from the personal ownership of a settlor or a trustee. Moreover, although the French *fiducie* utilizes the lexicon of the contract law, it “is best understood as located at the intersection of contract and property” (Emerich, 2009, p. 49).

1.6. Terminological Insights

Despite the existence of significant differences between common and civil legal traditions, nowadays we visualize the evident tendency of the convergence between these juridical-economic regimes. The given tendency is caused by the ongoing integrational global processes and especially, by the latest challenges of the market economy. It is strongly believed that in order to attract foreign capital to the countries of the EU or “to avoid capital flight, domestic legal orders must adapt to the requirements of financial markets, which direct their choices utilizing the most efficient approach” (Forti, 2011). Therefore, it can be assumed that the internationalization of the British *trust mechanism* is the result of the EU’s confrontation with ongoing external economic and political challenges. Moreover, the business law of the US and especially, the US pension and mutual funds inspire the countries of the EU to implement trust-like mechanisms (German *Treuhand*, Canadian and French *fiducie* -s) into their business and legal spheres. However, this implantation causes certain terminological inconveniences.

One of the major inconveniences is connected to the German linguistic reality. It is revealed during a profound study of the terms related to the contemporary German economic-juridical *trust-like devices*. A carried out research indicates that “Routledge German Dictionary of Business, Commerce, and Finance” presents the following English equivalents of the German lexical units related to the *Treuhand*:

“Treuhand – Trust;

Treuhänder – Trustee, fiduciary;

Treugeber – settlor, transferor, trustor (AmE)” (Routledge German Dictionary, 1997).

The similar data are presented in H. Haschka and H. Schmatzer’s well-known book “Aspects of U.S. business and law (An English-language survey with German-language comments)”. The given work directly indicates that the major elements of the *trust* are:

“A trustor or settler (Treugeber).

A beneficiary (Begünstigter).

A trustee (Treuhänder).

A fund or corpus (zweckgebundene Vermögensmasse) the title to which passes to the trustee)” (Haschka and Schmatzer, 1990, p. 167).

The existence of these equivalents makes obscure the essence of the *Treuhand* and equalizes it with the common law *trust*. This correlation seems impossible due to the fact that the German *Treuhand* and the English *trust* have different essences. The English entrusting relationships are based on the duality of ownership, which is unacceptable to Germany's economic and juridical reality. Some scholars have thoroughly discussed this question, for instance, J. Rehahn and A. Grimm directly indicated, that the term *Treuhand* must be translated as *German trust* (Rehahn and Grimm, 2012, p. 93). We share J. Rehahn and A. Grimm's idea and suppose that *German trust* is the best English counterpart of the term *Treuhand*.

One more inconvenience is depicted during the study of the correlation of the terms related to France's *fiducie* and the Quebecoise *trust-like mechanism*. The following chart depicts the existed reality:

Definition	France's Civil Law	Quebecoise Law (French Version)
Legal institution	Fiducie	Fiducie
A transferor of the property	Constituant	Constituant
A transferee	Fiduciaire	Fiduciaire
A person who benefits from the exploitation of the trust property	Bénéficiaire	Bénéficiaire
An object of entrusting relationships	Patrimoine d'affectation	Patrimoine d'affectation

The given chart vividly reveals that the French terms related to the Quebecoise *trust-like mechanism* coincide with the lexical units, which are presented in France's civil law. We believe that this correlation seems impossible due to the fact that the French *fiducie* and the Quebecoise *trust-like device* have different essences. The French entrusting relationships are based on the segregation of property, which is unacceptable to Quebec's law. It merely presents an ownerless patrimony. Therefore, for avoiding terminological ambiguity we propose the renaming of Quebecoise lexical units in the following way:

Definition	Quebecoise Law (French Version)
Legal institution	Quebecoise fiducie
A transferor of the property	Quebecoise constituant
A transferee	Quebecoise fiduciaire
A person who benefits from the exploitation of the trust property	Quebecoise bénéficiaire
An object of entrusting relationships	Quebecoise patrimoine d'affectation

Therefore, we believe that the above-proposed newly-created lexical units will change the existed terminological landscape and clarify the obscurity related to the naming and consequent definition of certain concepts from the semantic field of the entrusting relationships.

Conclusions

The implementation of the French *fiducie*, the German *Treuhand* and the Quebecoise *fiducie* can be regarded as the internationalization of the European Union's economic and juridical systems in respond to the contemporary globalizing processes. Although these legal transplants are not as flexible as the common law *trust* and they have not become entirely common in France, Germany and Canada, we can predict the increase of their popularity and significance during the next decades. The major reason lies in the fact that on the one hand, the *fiducie* and the *Treuhand* are excellent tools for the protection of property or for the management of a private wealth. On the other hand, France's *fiducie* presents the *patrimony by appropriation* (*patrimoine d'affectation* in the French language) - a juridical universality, which has "destroyed" Aubry and Rau's theory of the unicity of *patrimoine* and facilitated the emergence of the notion of a segregated patrimony consisting of a patrimonial mass "impermeable" i.e. untouchable from outside. Similarly to the French *fiducie*, the Quebecoise *fiducie* "worked out" an innovative entity - an autonomous patrimony – which is separated from other assets. Neither the *constituent* nor the *fiduciaire* and the *bénéficiaire* have real rights in it. The German economic-juridical reality presents one more almost miraculous variety of the *trust-like mechanism* - the *Stiftungstreuhand* or the *unselbständige Stiftung* (a *foundation trust* or a *dependent foundation*) – which excludes legal actions of a trustee's creditors in respect to the separated transferred assets. These actions can be impeded by a founder or by beneficiaries. This is a unique example of the *Sondervermögen* (a separated patrimony). The existence of the *Sondervermögen* emphasizes the fact that the German law "accepts" the notion of "splitting-up" - owning of more than one patrimony by one person. Such separation of assets is determined by the concept of the patrimony than that of the property, because the German property law is not based on the distinction between a legal property and an equitable one.

Therefore, besides an apparent irreconcilable contradiction, the common law trust "crept" into the civil reality in the form of the *trust-like mechanisms* and "destroyed" Aubry and Rau's theory of the unicity of the *patrimoine* via facilitating the emergence of the notions of a segregated patrimony, an autonomous patrimony and "splitting-up". The given progress will boost the competitiveness of the European Union via the vitalization of the cross-border transactions.

Moreover, we believe that after the achievement of the apparent “splitting-up”, France, Germany and Canada will have to be oriented on the implementation of the American models of pension and mutual funds. A special attention must be paid to the beginning of the utilization of an express trust, which will serve a great variety of social and economic purposes: the protection of property, tax planning, the administration of investments, the remuneration of staff, the management of jointly-owned property, etc. As a result, the EU’s resilience and integrity will be raised.

Therefore, France’s, Germany’s and Canada’s progress in reaching the internationalization of the *trust instrument* can become a useful example for all the members of the EU. However, during the implantation of the *trust-like mechanisms*, the greatest attention must be paid to the “improvement” of structural as well as linguistic issues. We have already made certain suggestions in the direction of “polishing” a contemporary lingual landscape via implementing new lexical units created by us. In our future scientific works, we will put an accent on the creation of some more terms.

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Tourisme comme facteur de développement durable

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Résumé

L'objectif principal de l'article est de présenter le concept et la signification du tourisme durable. On présente la définition de l'Organisation Mondiale du Tourisme qui définit le tourisme durable comme un tourisme qui tient pleinement compte de ses impacts économiques, sociaux et environnementaux actuels et futurs, répond aux besoins des visiteurs, de l'industrie, de l'environnement et des communautés hôtes. On souligne les agendas 21 locaux qui ont engagé une démarche territoriale dans le développement du tourisme durable. Une caractéristique fondamentale du secteur du tourisme est sa capacité de relier les aspects économiques, sociaux, culturels et environnementaux du développement durable. L'article traite les acteurs du tourisme durable et explique le rôle important des gouvernements dans le développement durable du tourisme.

Mots clé: tourisme, développement durable, tourisme durable.

Introduction

Le tourisme est un secteur de grande importance dans l'économie nationale. Il a une importance particulière sur le plan macroéconomique du fait de sa participation dans le PIB, la part de la population active qu'il occupe, et des recettes touristiques qu'il génère. Au niveau mondial, le tourisme constitue aujourd'hui un levier efficace pour la réalisation des objectifs de croissance durable, de résorption du chômage et de réduction de la pauvreté. Il vise également à concrétiser un développement durable dans ses trois dimensions : économique, sociale et environnementale.

1. Cadre conceptuel

L'idée de développement durable remonte à presque un siècle et fait partie depuis les années 1980 d'un programme de développement mondial, comme le précise le rapport de la Commission Brundtland (WCED, 1987).

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Bien que ce rapport ait popularisé le concept de développement durable, le tourisme n'y était pas traité et, jusqu'en 2000, l'idée d'un équilibre entre la conservation des ressources naturelles et culturelles, d'une part, et le développement touristique, d'autre part, était principalement un sujet de discussions théoriques (Gössling *et al.*, 2008).

La reconnaissance du tourisme comme outil potentiel de développement durable a été officialisée sur la scène internationale dans la Déclaration des Nations Unies sur les objectifs du Millénaire pour le développement, en 2000, et, après la tenue du Sommet mondial sur le développement durable (Johannesburg, 2002), ce rôle est devenu une partie intégrante du programme de mise en œuvre (Tepelus, 2008).

L'énoncé de tels principes de développement durable a accru la pression sur le secteur du tourisme en raison de la nécessité d'améliorer la performance environnementale et contribuer à la protection du patrimoine naturel et culturel, tout en apportant un éventail de retombées socio-économiques, particulièrement pour la destination d'accueil. Dans ce contexte, l'on s'attend à ce que l'industrie du tourisme contribue à l'amélioration des relations Nord-Sud de manière à faire avancer les dossiers de la lutte à la pauvreté et à la faim, de l'égalité, du respect des droits humains, de la santé et de l'éducation.

Des éléments complémentaires tels que le développement durable, le tourisme durable mais aussi certaines autres formes de tourisme doivent être définis si l'on souhaite appréhender le tourisme dans sa dimension durable.

Tout d'abord, le développement durable est défini par le rapport Brundtland comme un développement qui répond aux besoins du présent sans compromettre ceux des générations futures, dans sa triple dimension économique, sociale et environnementale (WCED, 1987).

Le tourisme, par sa nature transversale mais aussi structurante pour les territoires, est un des secteurs qui permet le mieux de mettre en œuvre la démarche de développement durable en cohérence avec les autres politiques d'aménagement du territoire, d'infrastructure ou de responsabilité sociale tout en garantissant ainsi son développement à long terme.

Ces trois dimensions ne sont pas à concevoir de manière séparée, mais doivent au contraire s'imbriquer dans une logique systémique. Le tourisme durable participe d'une approche différente et plus globale. Il ne se veut pas un segment isolé mais se conçoit comme un principe de développement durable applicable à tous les types d'activités touristiques, agissant sur les comportements des consommateurs et des producteurs du secteur, et supposant une évolution de ceux-ci, motivés par une culture du changement (Messenger, 2010).

Certains agendas 21 locaux ont engagé une démarche territoriale dans le développement du tourisme durable. Cette stratégie repose sur deux principes:

- Le tourisme durable doit être considéré comme un agrégat de branches afin de susciter des démarches qualitatifs adaptées à chacune ;
- Il a un rôle de levier pour traiter l'ensemble des domaines du développement territorial et les relations entre eux.

Le tourisme durable englobe tous les secteurs et les acteurs du tourisme avec une approche comportementale de production et de consommation liée à la notion de développement durable. Ce n'est pas un nouveau segment du tourisme, c'est une prise de conscience que les trois piliers du développement durable s'appliquent aussi au tourisme et que cela nécessite une modification dans la manière de concevoir le tourisme.

2. Signification du tourisme durable

Une exigence fondamentale du secteur du tourisme, c'est qu'il doit adhérer aux principes du tourisme durable et se concentrer sur la réalisation des objectifs de développement durable.

Le tourisme durable ne doit pas être considéré comme une composante distincte du tourisme, comme un ensemble de produits de niche, mais plutôt comme un état du secteur du tourisme dans son ensemble, qui devrait travailler à devenir plus durable.

Un des aspects les plus problématiques de l'application des principes de développement durable au tourisme concerne sa réelle signification. Cette application trouve l'une de ses plus grandes difficultés dans la définition même du concept. La coexistence de nombreuses définitions sème la confusion, particulièrement chez les consommateurs. La plupart des définitions du tourisme durable, mis à part le problème du biais que comporte toute définition, supposent un équilibre entre les dimensions environnementale, économique et socioculturelle d'un développement à long terme (les « trois piliers »). Un tourisme durable signifie une équité entre les générations, de telle sorte que l'on puisse répondre aux besoins du présent sans compromettre la possibilité pour les générations futures de satisfaire les leurs.

L'Organisation Mondiale du Tourisme (OMT) a défini le tourisme durable comme un tourisme qui tient pleinement compte de ses impacts économiques, sociaux et environnementaux actuels et futurs, répond aux besoins des visiteurs, de l'industrie, de l'environnement et des communautés hôtes. L'OMT envisage le tourisme durable comme une forme de tourisme qui (UNWTO and UNEP, 2005):

- Fait un usage optimal des ressources environnementales en préservant les processus écologiques essentiels et en contribuant à la conservation des ressources naturelles et de la biodiversité ;
- Respecte l'authenticité socioculturelle des collectivités d'accueil, conserve leur patrimoine culturel bâti et vivant, ainsi que leurs valeurs traditionnelles, et contribue à la tolérance et à la compréhension interculturelle ;
- Garantit des activités économiques viables à long terme en apportant à tous les acteurs des retombées socioéconomiques équitablement réparties, notamment des possibilités d'emploi et de revenu stables et des services sociaux aux collectivités d'accueil ;
- Exige la participation éclairée de toutes les parties prenantes concernées ainsi qu'une volonté politique forte pour garantir une large participation et un large consensus ;
- Est un processus continu qui exige un contrôle permanent des retombées et, si nécessaire, l'introduction de mesures préventives ou correctives ;
- Maintient un haut niveau de satisfaction des touristes et leur permet de vivre des expériences intéressantes en les sensibilisant aux problèmes de développement durable et en leur faisant mieux connaître les pratiques de tourisme durable.

Plus précisément l'OMT et le PNUE ont identifié 12 objectifs pour un tourisme durable (UNWTO and UNEP, 2005) :

1. La viabilité économique : Pour garantir la viabilité et la compétitivité des destinations et des entreprises touristiques, afin qu'elles puissent continuer à prospérer et générer des bénéfices à long terme.
2. La prospérité locale : Afin de maximiser la contribution du tourisme à la prospérité de la destination hôte, y compris la proportion des dépenses des visiteurs qui est conservée localement.
3. La qualité de l'emploi : Pour renforcer le nombre et la qualité des emplois locaux créés et soutenus par le tourisme, y compris le niveau de rémunération, les conditions de service et de disponibilité à tous, sans discrimination selon le sexe, la race, le handicap ou par d'autres moyens.
4. Équité sociale : Pour obtenir une distribution généralisée des avantages économiques et sociaux du tourisme dans toute la communauté bénéficiaire, y compris l'amélioration des possibilités, des produits et des services offerts aux pauvres.
5. Satisfaction du visiteur : Pour assurer une expérience satisfaisante, sécurisante et enrichissante pour les visiteurs, accessible à tous sans discrimination en fonction du sexe, de race, de handicap ou d'autres moyens.

6. Contrôle local : engager et responsabiliser les communautés locales dans la planification et la prise de décision concernant le développement de la gestion et l'avenir du tourisme dans leur région, en consultation avec les autres intervenants.
7. Bien-être de la communauté : Pour maintenir et renforcer la qualité de vie des communautés locales, y compris les structures sociales et l'accès aux ressources, des équipements et des systèmes de soutien de la vie, en évitant toute forme de dégradation ou d'exploitation sociale.
8. Richesse culturelle : respecter et valoriser le patrimoine historique, l'authenticité de la culture, les traditions et les particularités des communautés d'accueil.
9. L'intégrité physique : Pour maintenir et améliorer la qualité des paysages, urbains et ruraux, et éviter la dégradation physique et visuelle de l'environnement.
10. La diversité biologique : Pour soutenir la conservation des espaces naturels, des habitats et de la faune, et de minimiser leurs dommages.
11. L'efficacité des ressources : Afin de minimiser l'utilisation de ressources rares et non renouvelables dans le développement et l'exploitation des installations et des services touristiques.
12. Pureté de l'environnement : Pour minimiser la pollution de l'air, de l'eau et de la terre, la production de déchets par les entreprises touristiques et les visiteurs.

Grâce à ces objectifs pour un tourisme durable, on constate que l'agenda du tourisme durable est vaste. Il s'agit donc d'offrir des avantages économiques aux destinations et aux communautés, à travers un secteur touristique compétitif qui crée des emplois. Il s'agit également de minimiser les impacts négatifs sur l'environnement.

Une caractéristique fondamentale du secteur du tourisme est sa capacité de relier les aspects économiques, sociaux, culturels et environnementaux du développement durable et d'agir comme une force motrice pour leur enrichissement mutuel. Ceci est dû au fait que le tourisme est une activité économique fortement dépendante de la préservation de milieux intacts, un patrimoine culturel riche et des communautés accueillantes. La possibilité que le tourisme offre pour apporter des revenus et des emplois par le biais d'expériences culturelles en est justement l'illustration. A son tour, ceci représente une responsabilité importante pour le secteur qui doit faire face aux impacts sociaux, culturels et environnementaux pour son développement et ses opérations.

Le développement d'un tourisme durable exige l'établissement d'un équilibre entre les trois piliers interdépendants de la viabilité ; en pratique, cela signifie de trouver ledit équilibre (UNWTO and UNEP, 2005).

La viabilité économique signifie que les activités touristiques engendrent une prospérité à différents niveaux de la société, dans un souci d'assurer la rentabilité et la viabilité des entreprises et des activités touristiques, de même que, par conséquent, leur capacité de se maintenir à long terme.

La viabilité sociale signifie respecter les droits de la personne et l'égalité des chances pour tous dans la société ainsi que protéger la diversité culturelle. Elle suppose une répartition équitable des bénéfices du développement touristique et des retombées positives pour les collectivités locales, dans un objectif de renforcement de l'autonomie et de lutte à la pauvreté.

La viabilité environnementale signifie conserver et gérer les ressources naturelles et utiliser efficacement ou en moindre quantité celles qui ne sont pas renouvelables. Elle exige des mesures pour réduire la production globale de déchets et accentuer la protection de la biodiversité.

3. Viabilité économique du tourisme durable

Le tourisme durable n'est pas une forme distincte ou spécifique de tourisme. Ce sont toutes les formes de tourisme qui doivent s'efforcer de devenir plus durables.

Rendre le tourisme plus durable, ce n'est pas seulement contrôler et gérer les impacts négatifs du secteur. Le tourisme a ceci de particulier qu'il peut à la fois avoir des retombées économiques et sociales favorables pour les communautés locales et renforcer la sensibilisation et le soutien à la conservation de l'environnement.

Dans le secteur du tourisme, le développement économique et la protection de l'environnement ne doivent pas être considérés comme des forces opposées : ils devraient aller de pair, comme des aspirations qui peuvent et doivent se renforcer mutuellement. Les politiques et les actions entreprises doivent viser à renforcer les bénéfices et à réduire les coûts du tourisme.

Des questions importantes sont ici en jeu. La poursuite de la croissance massive du tourisme est prévue, offrant d'excellentes occasions de faire progresser la prospérité, mais présentant aussi des défis considérables et des menaces potentielles pour l'environnement et les communautés locales si elle n'est pas gérée correctement.

Le changement climatique est reconnu comme étant un problème mondial majeur, comportant des implications significatives pour le tourisme. Parallèlement, la prise de conscience du potentiel que représente le tourisme dans la lutte contre la pauvreté, en apportant des sources de revenus au cœur de certaines des communautés les plus pauvres de la Terre s'accroît.

3.1. Les acteurs du tourisme durable

De nombreux groupes peuvent tirer avantage d'un tourisme plus durable:

- Les entreprises de tourisme, tout en cherchant la rentabilité à long terme, doivent se préoccuper de leur image de marque, des relations avec leur personnel et de leur impact sur l'environnement mondial et sur leur environnement immédiat ;
- Les communautés locales aspirent à une prospérité accrue, sans exploitation ni atteinte à la qualité de la vie ;
- Les défenseurs de l'environnement s'inquiètent des impacts négatifs du tourisme, mais y voient également une source de revenus pour la conservation ;
- Les touristes recherchent des prestations de qualité dans un environnement sûr et attrayant ; ils sont de plus en plus conscients des impacts de leurs voyages.

Pour rendre le tourisme plus durable, les gouvernements doivent prendre en compte les différents points de vue et motivations de ces acteurs et travailler avec eux pour atteindre des objectifs communs.

3.2. Le rôle important des gouvernements

La durabilité est la responsabilité de tous ceux qui sont impliqués dans le secteur du tourisme. La plupart des impacts du tourisme résultent des activités du secteur privé et des touristes eux-mêmes. Il est cependant évident que les gouvernements doivent jouer un rôle de premier plan, si des progrès significatifs vers un tourisme durable sont attendus, et ce, pour les raisons suivantes :

- L'industrie touristique est très fragmentée. Il est difficile pour de nombreuses microentreprises et petites entreprises isolées d'avoir un impact significatif : aussi, une coordination s'impose ;
- Le développement durable touche des questions d'intérêt général : l'air, l'eau, le patrimoine naturel et culturel, la qualité de la vie. De plus, la plupart de ces ressources sont gérées par les gouvernements ;
- Les gouvernements ont à leur disposition la plupart des outils nécessaires pour faire la différence, tels que le pouvoir d'édicter des règlements et d'offrir des incitations économiques, ils ont également à disposition les ressources et les institutions à même de promouvoir et faire connaître les bonnes pratiques.

Les gouvernements doivent créer les conditions d'un contexte qui permette au secteur privé, aux touristes et aux autres acteurs de prendre en compte les questions de durabilité et leur donne les

moyens de le faire concrètement. La meilleure façon d'y parvenir est d'adopter et de mettre en œuvre un ensemble de politiques de développement et de gestion du tourisme élaborées en concertation avec les autres acteurs et articulées autour du développement durable.

Les principes du développement durable mettent l'accent sur la détermination des acteurs locaux et la mise en œuvre de politiques et d'initiatives locales. Cette démarche doit s'inscrire dans un cadre stratégique national favorable.

4. Tourisme et développement durable: une relation particulière

Le tourisme occupe une position spéciale par rapport à la contribution qu'il peut apporter au développement durable et aux défis qu'il pose : d'une part, parce que c'est un secteur dynamique et en plein essor, qui apporte une contribution majeure à l'économie de nombreux pays et destinations locales ; d'autre part, parce que c'est une activité qui crée une relation particulière entre les consommateurs (les visiteurs), les professionnels, l'environnement et les communautés locales.

Cette relation spéciale naît du fait que, contrairement à la plupart des autres secteurs, le consommateur de tourisme (le touriste) se déplace jusqu'au producteur et au produit. Cela induit trois caractéristiques importantes et uniques de la relation entre le tourisme et le développement durable :

- Interaction : en tant qu'activité de services qui consiste à faire découvrir de nouveaux lieux, le tourisme implique par nature de multiples interactions, directes et indirectes, entre les visiteurs, les communautés d'accueil et leur environnement local ;
- Sensibilisation : le tourisme fait prendre conscience aux gens (visiteurs et hôtes) des problèmes d'environnement et des différences entre nations et cultures. Cela peut modifier les attitudes et les préoccupations par rapport aux questions de développement durable, au cours du voyage mais aussi pour toute la vie ;
- Dépendance : de nombreux touristes recherchent des environnements intacts et propres, des aires naturelles attrayantes, des traditions historiques et culturelles authentiques et des hôtes accueillants avec lesquels ils puissent avoir de bonnes relations. Le secteur est donc tributaire de l'existence de ces conditions.

Ce lien étroit et direct crée une situation fragile où le tourisme peut avoir des effets à la fois désastreux et très positifs sur le développement durable.

Du côté des effets positifs, le tourisme peut :

- Etre une source croissante d'opportunités de développement d'entreprises et de création d'emplois, ainsi que de stimulation les investissements et de soutien aux services locaux, même dans les communautés relativement isolées ;
- Conférer une valeur économique tangible aux ressources naturelles et culturelles, ce qui peut se traduire par des revenus directs (dépenses des visiteurs) pour leur conservation et par un soutien accru des communautés locales à la conservation ;
- Etre un facteur de compréhension interculturelle et de paix.
- A l'inverse, du côté des effets négatifs, le tourisme peut :
 - Exercer une pression directe sur les écosystèmes fragiles, provoquant la dégradation de l'environnement physique et perturbant la faune et la flore sauvages ;
 - Exercer une pression considérable sur les communautés d'accueil et conduire à la désorganisation des sociétés traditionnelles ;
- Etre en compétition pour l'utilisation de ressources rares, principalement le sol et l'eau ;
- Apporter une contribution majeure à la pollution locale et globale ;
- Etre une source de revenus vulnérable et instable, car souvent très sensible aux modifications, perçues ou réelles, de l'état environnemental et social des destinations.

Le résultat est que tous ceux qui jouent un rôle dans le tourisme ont l'énorme responsabilité de reconnaître l'importance de sa durabilité. Le tourisme peut faire beaucoup de bien. Mais il peut aussi être le vecteur de pressions susceptibles de détruire les ressources dont il est tributaire. Si on le développe sans se soucier de sa durabilité, il peut non seulement faire du tort aux sociétés et à l'environnement, mais aussi receler les germes de sa propre destruction.

Du point de vue des gouvernements, les politiques touristiques qui prennent en compte les problèmes économiques, sociaux et environnementaux et qui sont élaborées en ayant présent à l'esprit son pouvoir à la fois destructeur et bénéfique, sont un moyen de canaliser dans la bonne direction les forces résultant de la croissance dynamique du secteur.

Du point de vue des professionnels du tourisme, accepter cette responsabilité ce n'est pas seulement faire preuve de civisme, c'est asseoir ce civisme sur un solide intérêt personnel, car toute atteinte à l'environnement naturel, culturel ou social d'une destination peut conduire à sa destruction ou à la perte de sa valeur en tant que produit touristique. En termes économiques, le développement durable est un moyen de garantir le facteur crucial déjà évoqué : « la viabilité des entreprises et des activités, et leur aptitude à se maintenir à long terme ».

Certains commentateurs et institutions ont laissé entendre que le tourisme durable était une forme particulière de tourisme attirant un marché étroit, sensible aux impacts environnementaux et

sociaux, pour lequel il existe des types particuliers de produits et d'opérateurs et qui se caractérise généralement, contrairement au tourisme de masse, par sa petite échelle. C'est là une méprise dangereuse : il faut qu'il soit bien clair que l'expression « tourisme durable », qui désigne un « tourisme basé sur les principes du développement durable », fait référence à un objectif fondamental : rendre toutes les formes de tourisme plus durables. Le terme doit être employé pour désigner une condition du tourisme, pas un type de tourisme. Correctement géré, le tourisme de masse peut et devrait être aussi durable que le tourisme à petite échelle, dispersé ou axé sur des centres d'intérêt particuliers.

De plus, le tourisme durable ne doit pas laisser entendre qu'il existerait un état « ni » du tourisme. En fait, il est souvent dit que le tourisme pourrait n'être jamais totalement viable : le développement durable du tourisme est un processus d'amélioration permanent.

La confusion concernant la signification de l'expression « tourisme durable » a été accentuée par l'emploi du terme « écotourisme » comme synonyme de tourisme durable. Or, si l'écotourisme adhère aux principes du tourisme durable, il fait explicitement référence à un produit bien spécifique. Il s'agit d'une forme de tourisme pratiquée dans des régions naturelles, comportant une forme d'interprétation du patrimoine naturel et culturel, soutenant la conservation et des communautés autochtones et généralement organisée pour de petits groupes. Le développement de l'écotourisme peut être un outil utile dans le cadre de stratégies générales de tourisme plus durable, comme exposé dans la Déclaration du Québec sur l'écotourisme en 2002.

Ainsi, la définition de l'écotourisme donnée par la Société internationale de l'écotourisme est la suivante : « voyage responsable qui préserve l'environnement des zones naturelles visitées et améliore le bien-être des populations autochtones ». La Déclaration de Québec sur l'écotourisme (2002) reconnaît que l'écotourisme repose sur les principes spécifiques suivants qui le distinguent du concept plus large de tourisme durable :

- Il contribue activement à la protection du patrimoine naturel et culturel ;
- Il associe les populations locales et autochtones à sa planification, à son développement et à son exploitation, et contribue à leur bien-être ;
- Il propose aux visiteurs une interprétation du patrimoine naturel et culturel de la destination ;
- Il se prête mieux à la pratique du voyage en individuel ainsi qu'aux voyages organisés en petits groupes.

L'OMT a donné la définition complète du tourisme durable, en insistant sur la nécessité de rendre toutes les formes de tourisme durables. En termes simples, le tourisme durable peut être défini comme étant : « Un tourisme qui tient pleinement compte de ses impacts économiques, sociaux et

environnementaux actuels et futurs, en répondant aux besoins des visiteurs, des professionnels, de l'environnement et des communautés d'accueil. » (UNESCO, 2002)

Rendre le tourisme plus durable signifie prendre en compte ces impacts et ces besoins dans la planification, le développement et la conduite des activités touristiques. C'est un processus d'amélioration permanent, qui s'applique aussi bien au tourisme urbain et balnéaire qu'au tourisme rural et côtier, de montagne et dans les aires protégées. Il est valable pour toutes les formes de tourisme d'affaires et de loisirs.

Conclusions

Au niveau mondial, le tourisme constitue aujourd'hui un levier efficace pour la réalisation des objectifs de croissance durable, de résorption du chômage et de réduction de la pauvreté. Il vise également à concrétiser un développement durable dans ses trois dimensions : économique, sociale et environnementale.

Le développement d'un tourisme durable exige l'établissement d'un équilibre entre les trois piliers interdépendants de la viabilité ; en pratique, cela signifie de trouver ledit équilibre.

La viabilité économique signifie que les activités touristiques engendrent une prospérité à différents niveaux de la société, dans un souci d'assurer la rentabilité et la viabilité des entreprises et des activités touristiques, de même que, par conséquent, leur capacité de se maintenir à long terme.

La viabilité sociale signifie respecter les droits de la personne et l'égalité des chances pour tous dans la société ainsi que protéger la diversité culturelle.

La viabilité environnementale signifie conserver et gérer les ressources naturelles et utiliser efficacement ou en moindre quantité celles qui ne sont pas renouvelables.

Le tourisme occupe une position spéciale par rapport à la contribution qu'il peut apporter au développement durable, parce que c'est un secteur dynamique et en plein essor, qui apporte une contribution majeure à l'économie de nombreux pays et destinations locales.

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FDI and labour market: empirical evidence from the states that joined the European Union in 2004

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Abstract

The purpose of our study is to analyse the impact of FDI on the labour markets of the states that joined the EU in 2004, before and after the EU accession and in the context of the global economic crisis. To achieve this objective, we have investigated the literature and carried out a pooled OLS regression estimation. The analysis shows that, until 2003, FDI neither enhanced the labour force participation rate, nor reduced the youth unemployment in the analysed states. After EU adhesion, FDI had only one significant positive effect, exerted on real labour productivity, and negative effects on employment and labour force participation rate. In the context of the crisis, FDI had beneficial effects on the unemployment, but to a lesser extent on the youth unemployment. FDI did not have any significant effect on annual net earnings in none of the three periods.

Keywords: foreign direct investment, labour market, employment, net income, labour productivity

JEL Classification: E24, J24, O19

Introduction

Many researches have studied the impact that foreign direct investment (FDI) has on the labour market, the most cited ones being related to the increase in wages and decrease in unemployment (Feenstra and Hanson, 1997; Blonigen and Figlio, 2000; Lipsey and Sjöholm, 2002; Lipsey, 2004; Fazekas, 2005). However, no study has analysed the influence of FDI on all the labour markets of the ten countries that joined the EU in 2004: Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovak Republic and Slovenia. Considering the fact that, at the moment of adhesion, these ten new states (EU10) had a combined population of almost 75 million citizens, coming from different social, cultural, political and economic environments (including former Soviet republics, former satellites of the USSR, former Yugoslav Republic and Mediterranean islands), a study regarding the impact of the FDI on different aspects of the labour markets of these countries

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would be very interesting from the perspective of the EU adhesion and in the context of the global economic crisis.

Therefore, the purpose of our study is to analyse the impact of the FDI on the labour markets of EU10 during the period 1993-2014, with a particular focus on wages, employment and productivity. The relevance of this study results from the fact that the research will underline the effects of FDI on EU10 labour markets before and after the EU adhesion and in the context of the global economic crisis. Considering that, during the recession period, the wages tend to fall and the unemployment raises, especially among the youth, it is important to see if FDI could represent a solution for these problems or if FDI could have had a buffering effect against the negative consequences of the crisis.

In order to achieve our research objective we have conducted both an investigation of the specialized literature and an econometric analysis, based on a pooled OLS regression, performed on each of the three mentioned periods, namely 1993-2003, 2004-2008 and 2009-2014. The results of the statistical analysis, which took into account six indicators – annual net earnings, youth and total unemployment, real labour productivity, labour force participation rate and employment to population rate – offer an interesting perspective of the impact of the FDI on the EU10 labour markets.

1. Literature review

The benefits associated with the presence of foreign companies depend on a large category of factors, including the situation in which there are linkages with local firms and consumers or depending on the efficacy of foreign companies to limit potential losses towards local firms. Generally speaking, foreign firms are regarded as a means of strengthening the competition in the host countries, leading to an increased productivity, a reduction in prices and a better resource distribution, but they can also lead to market concentration or to a loss of local competition (Pessoa, 2007). However, local firms could be replaced, especially in developing countries, due to a wide range of advantages that foreign companies possess (Markusen and Venables, 1999). It is considered that, through the competition they generate, FDI-owned companies are usually leading to a decrease of outputs' prices, thus determining a substitution of local firms on consumer goods' market. Additionally, upward linkages facilitate the development of local firms that produce intermediary goods, thus also leading to an overall decrease in prices (Markusen and Venables, 1999; Iacovoïu, 2009). Rodriguez-Clare (1996) shows that an intensive use of local intermediary goods acquired by foreign firms generate an efficient raise of the host-country productivity. Although there are some

researches that demonstrate that FDI-owned companies could “disturb” the equilibrium of a local market, leading to a reduction of productivity (Aitken and Harrison, 1999), most of the studies show that foreign firms can raise the quality standards and improve the outputs of local firms (Matei, 2004).

FDI can increase the demand for skilled labour by expanding the production towards more sophisticated goods and by introducing more advanced technology. This will generate higher wages for the skilled persons, which may raise the wage inequality due to an increase in the so-called “skill premium” – the difference between wages of skilled and unskilled workers. Yet, this is not only a result of the fact that the multinational companies increase the demand for skilled workers in an industry or region, but also a consequence of the technology spillovers that occur from foreign to domestic firms (Driffield and Taylor, 2000). Due to these spillovers, the relative demand for skilled workers will also increase in the domestic firms, further contributing to aggregate wage inequality and skill upgrading.

Some studies show that the local firms will also increase the wages paid to their employees, after the entry of the multinationals on a market. For example, Feenstra and Hanson (1997) found out a close relation between FDI inflows and the increase in the wages of Mexican workers, during the 1990's. Actually, their study points out that the highest wage increases were in those states receiving the highest volumes of investments. Blonigen and Figlio (2000) also examined the effects of FDI on local wages in South Carolina and they found out that the entry of a single average sized foreign company increases the real wages of all workers from the plant's industry and county by 2.3%. The explanation offered by them for this wage raise is that the overall labour demand will increase. Other studies have considered that these increases in the wages paid by the domestic firms after the entrance of the multinationals occur only in the case of the skilled workers. However, it was noticed that FDI's effects on skilled labour wages are 50% to 70% above the skilled wages paid by the local firms (Berman, Bound, and Griliches, 1994; Lipsey and Sjöholm, 2002).

In the literature, there are some other studies that have analysed the impact of the FDI on the wages of the multinationals' unskilled workers. Most of them have found out that the wage premiums for the unskilled workers in the foreign-owned manufacturing firms range between 10% and 30% (Harrison, 1996; Lipsey and Sjöholm, 2002). However, comparing the skilled and unskilled wages in UK manufacturing industries, Griffith and Simpson (2001) found out that the wage premium paid by the multinationals is twice as large for the skilled workers compared to the unskilled ones. Once again, this proves that the premium wages could be related to higher labour productivity. A large range of studies confirm the fact that foreign-owned companies have increased more the productivity levels when compared to local companies. For example, by examining the productive sector in

Mexico, Blomström and Wolff (1994) show that both added value and raw output per person employed in foreign-owned companies are double than those found in local companies. Similar results are found for Uruguayan (Kokko, Zejan and Tansini, 2001) and Asian firms (Ramstetter, 1999). In the production sector of Indonesia, Okamoto and Sjöholm (1999) report a higher productivity of foreign-owned companies in almost all the analysed fields. In the Indian case, Kathuria (2000) notices that in 50% of the analysed work-fields, foreign-owned companies have the status of technological leader.

Regarding this increase in productivity generated by the foreign firms, an important aspect worth to be analysed is whether the FDI companies' activity leads to an increase in the overall productivity, not only by a simple higher productivity rate of the foreign firms, but also by the spillover effects they generate or due to the need of the local firms to "keep up" with the foreign ones (Lipsey, 2004). An approach of this aspect could be found in the study conducted by Kugler (2000), who notices three different channels by which FDI can increase local firms' productivity: knowledge spillovers, linkages with local companies and the competition associated with the presence of the foreign firms in a certain market. In fact, knowledge spillovers usually occur when FDI companies are involved in local economy, through upstream or downstream linkages (Lall, 1980). For example, local suppliers can receive assistance from the investing firms in optimizing the production, or local workers can get involved in training programmes (Chen et. al., 2004). Although there is evidence that spillovers are somehow limited (Blomström and Kokko, 1998; Görg and Greenaway, 2001) and that the foreign companies may also take over certain consumer markets from the local firms, leading to a decrease in their productivity, it is generally accepted that FDI-owned companies do possess higher knowledge and technologies and part of it does "leak" towards local firms (Lipsey, 2004), especially when the technology gap between host and home country is larger (Findlay, 1978). Aitken and Harrison (1999) show that, in Venezuela, foreign capital is negatively correlated with the productivity of local firms in certain fields, as foreign firms usually invest in sectors already developed, but Blomström and Persson (1983) notice that in the Mexican industrial sector there is a positive correlation between the presence of the foreign companies and the local firms' productivity. Buckley, Clegg and Wang (2002) confirm the same effect in China.

All these studies, underlying the idea that FDI increases the productivity of the developing countries' firms, lead to another positive effect of the multinational companies: increase in the number of jobs. Because of the market structure, higher productivity tends to be associated with larger firm size, leading to an increase in employment. However, this impact seems to be more pronounced in developing countries, where there is a clear positive effect of FDI on employment, noticeable at the

level of a firm (number of employees), industry (size or unemployment rate), region (unemployment rate) or country (unemployment rate). Meanwhile, in the case of the developed economies, the FDI effect on employment is more mixed, being possible to increase or decrease the number of jobs (Hale and Mingzhi, 2016).

A very suggestive example of the fact that the FDI leads to an increase in the employment in the host countries is brought by Fazekas (2005), on the case of Hungary. He concludes that, between 1993 and 2002, more than two thirds of the net job creation was generated by the presence of the foreign firms. During the analysed period, the number of multinationals' employees increased by 91.1%, while the number of the domestic companies' employees increased only by 8.8%. Since Hungary adhered to the EU in 2004, it is also included in our study. Hungary sets apart from other countries in our analysis, since FDI values were very high, with exceptionally high values between 2006 and 2008. In fact, as mentioned, our analysis is focused on a heterogeneous group of countries. However, all ten analysed states adhered to the EU in the same year. Thus, the 2004 adhesion could well serve as a control point in our analysis. We consider that the adhesion of EU10 countries, very different from each other in 2004, should have had a levelling effect in the following years, in terms of microeconomic, macroeconomic and foreign policies, as the countries have been following the common EU strategy. This also implies that accession to EU also leads to better financial inflows between member states, a better capital distribution and improved foreign capital efficiency.

A common strategy was also employed after the beginning of the economic and financial downturn. This crisis was marked by a global reduction of FDI inflows and a productivity drop, but a quick recovery followed. The same cannot be stated for wages, as there is a known gap between the productivity and the wages (at least in the long run), in most countries. Additionally, the crisis led to an increase in the worldwide savings, while the wages were lagging behind (Mistral, 2016). Nevertheless, the crisis also led to high unemployment levels, although most economic models explain a negative correlation between wage levels and employment. During the recession, employment and productivity were two trade-off variables in the EU countries, therefore a very intricate correlation exists between these various indicators and country-specific effects are well established (Meager and Speckesser, 2011).

According to some studies, the financial crises usually have a discouraging impact on FDI because of the increasing uncertainty in macro-economic performance that results during the recession period (Urata, 1999). Therefore, a crisis can negatively influence the companies' plans for future investments. A United Nations' survey, conducted in 2008, showed that the global downturn that started in the end of 2007 made the corporations more cautious, only 21% of the investigated

firms estimating an increase in their FDI expenditures over the next 3 years (UNCTAD, 2008). Even if the Asian experience showed that after the 2007 crisis the FDI inflows into these economies did not register a significant decrease, the Central and Eastern European (CEE) countries present a different reality. According to a report published by Hunya and Schwarzhappel (2009), if in 2008 FDI inflows into the CEE states stagnated, in 2009 these investments sharply declined. This negative trend was accompanied by an increase in unemployment (Jimborean and Kelber, 2017). Meanwhile, a study published by Popescu (2014) showed that, despite the FDI decline that occurred in the context of the economic downturn, these investments continued to have a positive impact on the productivity of the CEE states. In this context, Popescu (2014) assumes that FDI may be an essential factor for productivity convergence in CEE countries.

2. Research methodology

2.1. Variables

Beside FDI inflows, we selected six different parameters which describe the labour market in EU10, focused on the role of the human capital, as the most important aspect of any labour market. The values for the seven indicators, analysed between 1993 and 2014, were retrieved from two widely used databases: the *World Bank Indicators* (2017) and *Eurostat* (2017). Five indicators were available on World Bank Indicators, namely the net inflows of FDI, calculated in billions USD and noted FDI, employment to population ratio, named EPR, labour force participation rate, abbreviated LFPR, youth unemployment, noted UY and the total unemployment rate, noted UT. These indicators only show some parameters of the labour market related to the total working force of a country and are not related to wages or productivity. The other two indicators which were retrieved from Eurostat are the annual net earnings, in Euros, noted ANE, and the real labour productivity per person employed, as a percentage of the indexed 2010, named RLPPPE. It was not possible to use only the Eurostat database, because it lacks some statistics, such as the data for ANE, which started being reported only since 2000 and RLPPPE, whose values were not recorded until 1995. Additionally, ANE was not recorded by Eurostat for Malta until 2005 and RLPPPE was also missing until 2000 for both Malta and Poland. All variables were subjected to a Box-Cox transformation using the formula $new_value = (old_value^{0.5} - 1) / 0.5$, except the values of FDI inflows after 2008, when FDI sometimes had negative values.

For our analysis, it is important to mention the difference between two related indicators. According to World Bank, the EPR is defined as the proportion of a country's population that is employed, while the LFPR is the proportion of the population that is economically active, defined as all people who supply labour for the production of goods and services during a specified period. As such, LFPR has higher values, as it also includes unemployed people actively looking for a workplace and should be analysed together with the unemployment rate.

2.2. Regression models

As mentioned before, we used seven different variables, each one having a time intercept and a country intercept, noted t and i , respectively. Three different models were analyzed, in order to compare the effect before and after the two important economic events, the adhesion of the ten countries to EU (2004) and the beginning of the economic crisis (2008). Therefore, $N_i=10$ (Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovak Republic and Slovenia) and N_t varied according to the three different constructed models, either $N_{t1}=11$, $N_{t2}=5$ or $N_{t3}=6$ for each of the three periods: 1993-2003, 2004-2008 and 2009-2014. Since two variables groups, namely, LFPR-EPR and UY-UT are prone to autocorrelation, we modelled them individually in each regression, such as the two variables from each group would never be included in the same regression.

2.3. Methodology's limits

Although the methodology used and the ideas underlining our objectives are straightforward, our study has some limitations. Firstly, our analysis is based on a very heterogeneous group of countries whose economies were not stable during the two major economic events. This leads to some extent to a dataset comprising divergent and highly variable parameters. In order to minimize the heteroscedasticity of our dataset, we performed a Box-Cox transformation using an arbitrary lambda constant of 0.5. However, since EU10 comprises ten largely different economies, in terms of size and with different strategies employed during the two economic shifts, it contained some outliers, which exert their effects even after the Box-Cox transformation, rendering our regression too sensitive to the rigour of post-estimation tests (results not shown). Nevertheless, we believe that finding a significant FDI effect on certain labour market parameters in most of these countries would be very consistent with the changes implied by the two main economic events.

Secondly, although the data seems specifically suited for panel data models, we chose not to perform such an analysis (such as fixed effects) because, in order to achieve the research objective and to compare three different results (hence three models), each of these models included too small sample (especially for models 2 and 3), with small N_t to be appropriate in panel data specific models. However, even though individual specific effects could not be taken into account, the multiple different pooled ordinary least squares (OLS) regressions we use do include many different observations for each variable and the significant values obtained should accurately display an effect. In each of the equations of the three models, all parameters, except FDI, took turns to becoming a dependent variable, thus allowing us to observe other potential relations between specific variables which could better assess the overall effect of FDI on the labour market variables included in our three models.

3. Results and discussions

3.1. Effects of FDI on the EU10 labour markets before accession (1993-2003)

Our analysis was focused on determining the impact of the FDI on four variables of the labour market, mentioned before: EPR, LFPR, UY and UT. As mentioned before, the variables retrieved from Eurostat, in this case ANE and RLPPPE, have missing values for this period and, therefore, these variables were not included. However, the results, presented in, show very low R-squared values to make any statements about the variables, but such results should be outlined and further developed in any future studies. When FDI is used as an independent variable, two different significant effects can be depicted from the results. A small but significant FDI effect can be noticed on the UY, when LFPR is the other independent variable, and FDI had negative effects on EPR and LFPR. Therefore, we may assume that the foreign investments made in the EU10 states before their accession neither enhanced the labour force participation rate, nor reduced the youth unemployment, as we should have expected. Actually, this result has to be analysed in the socio-economic and political context of the EU10. If we consider that, between 1993 and 2003, most of the EU10 states have passed through a transition period to a market economy, we may assume that most of the FDI were not greenfield investments, but brownfield ones. Consequently, during the privatization process, many people lost their jobs. However, a more general conclusion should be drawn only by including much more variables in such a model.

Table 1 – Some of the results obtained from the pooled OLS in the period 1993-2003, standard errors in parentheses with significance levels defined as * (p<0.01), ** (p<0.05) and * (p<0.1)**

	DEPENDENT VARIABLES				
	EPR	LFPR	LFPR	UY	UY
FDI	-0.113*** (0.0345)	-0.106*** (0.0389)	-0.107*** (0.0400)	-0.00505 (0.122)	0.230* (0.127)
UT	-0.156*** (0.0362)	0.129*** (0.0408)	-	-	-
UY	-	-	0.0650** (0.0304)	-	-
EPR	-	-	-	-1.384*** (0.301)	-
LFPR	-	-	-	-	0.636** (0.297)
Constant	13.03*** (0.160)	13.85*** (0.180)	13.95*** (0.215)	23.94*** (3.734)	-2.345 (4.286)
R-squared	0.232	0.132	0.089	0.180	0.057

Source: own calculations

3.2. Effects of FDI on the EU10 labour markets between the EU adhesion and the beginning of the economic crisis (2004-2008)

According to the literature, during the period 2004-2008, FDI inflows attracted by the 2004 EU countries should have had a positive effect on all the labour market parameters taken into account in our analysis, respectively employment, wages and productivity. In this model we included 16 different regressions, which could be easily compared, since the same independent variables were accounted for different, but similar, regressions, and a consensus was noticed. For example, in all regression with RLPPPE as a dependent variable, FDI had a positive and significant effect. The R-squared values were larger and we focused mostly on the R-squared values over 0.7. Table 2 shows only one of these regressions, using RLPPPE as the dependent variable.

Table 2 – Some of the results obtained from the pooled OLS in the period 2004-2008, standard errors in parentheses with significance levels defined as * (p<0.01), ** (p<0.05) and * (p<0.1)**

	DEPENDENT VARIABLES				
	RLPPPE	EPR	LFPR	UT	UY
FDI	0.0703*** (0.0233)	-0.0710*** (0.0171)	-0.0986*** (0.0174)	0.120** (0.0512)	0.171** (0.0681)
EPR	-0.0839 (0.211)	-	-	-	-
UY	-0.284*** (0.0521)	-0.182*** (0.0477)	-	-	-
ANE	0.0168*** (0.00337)	0.00805** (0.00326)	0.00323 (0.00355)	0.00871 (0.00808)	0.0261** (0.0107)
UT	-	-	0.00198 (0.0740)	-	-
LFPR	-	-	-	0.0103 (0.386)	-0.597 (0.514)
RLPPPE	-	-0.0538 (0.135)	0.106 (0.149)	-1.500*** (0.231)	-2.106*** (0.307)
Constant	17.84*** (2.755)	13.76*** (2.297)	12.56*** (2.543)	28.05*** (5.901)	47.66*** (7.849)
R-squared	0.783	0.763	0.567	0.653	0.680

Source: own calculations

Another aspect worth mentioning is the direct negative effect of FDI on EPR and LFPR between 2004 and 2008. However, the results also show that FDI had significant positive effects on the unemployment, but this was noticeable only when LFPR, and not EPR, was another independent variable, therefore no statements should be made about this type of effect.

3.3. Effects of FDI on the EU10 labour markets in the context of the economic crisis (2009-2014)

The third model used in our study refers to the period 2009-2014, when the consequences of the economic crisis started to be felt in EU10. Since in this period the countries have struggled with serious economic issues, it is very important to evaluate whether they benefited from FDI inflows.

Considering the assessment of the literature and of the economic context, it is expected that FDI had a positive effect only on the productivity of the host economies, without being able to positively influence the unemployment or the paid wages in the ten countries. Unfortunately, most of the 16 regressions had very low R-squared values and, additionally, showed no effect whatsoever of FDI on labour market parameters. This is in agreement with the fact that the recession impacted each country differently.

However, an interesting result was observed when unemployment rates were selected as the dependent variables, showing that FDI would have had a beneficial effect on UT, but a smaller effect on UY (Table 3). Although the R-squared values are decent, this result cannot be confirmed by a visual analysis of a plot, but such a relationship should be taken into account in future studies involving other simple or compound variables, which must include unemployment rates.

Table 3 – Some of the results obtained from the pooled OLS in the period 2009-2014, standard errors in parentheses with significance levels defined as * ($p < 0.01$), ** ($p < 0.05$) and * ($p < 0.1$)**

	DEPENDENT VARIABLES	
	UY	UT
FDI	-0.0340* (0.0203)	-0.0410** (0.0161)
ANE	-0.0389*** (0.00485)	-0.0241*** (0.00385)
LFPR	-0.100 (0.261)	0.271 (0.207)
RLPPPE	-0.206 (0.313)	-0.116 (0.249)
Constant	18.80*** (6.077)	6.331 (4.827)
R-squared	0.594	0.547

Source: own calculations

Conclusions

From the results of our statistical analysis some conclusions can be depicted, even if, in some cases, more data is needed. It should be mentioned that, in this paper, we analysed a dataset comprising numbers from a very heterogeneous group of countries during two major economic shifts. Although such an approach is atypical, we believe that any result should weight much and its extrapolation to the entire EU or a generalization could be furthered in subsequent papers.

For the first analysed period, 1993-2003, we may notice an interesting result, which can further be developed by including much more variables. Thus, before the accession of the EU10 states, the foreign investments they attracted neither enhanced the labour force participation rate, nor reduced the youth unemployment. This aspect may be a consequence of the fact that, during the transition period of most of the EU10 states, FDI mainly consisted in brownfield investments.

The results obtained for the period 2004-2008 were contrary to our expectations and to the literature, according to which FDI should have had a pronounced positive impact on employment,

wages and productivity. We found that, during this period, FDI had significant positive effects only on the overall labour productivity of the EU10. Meanwhile, FDI had negative effects on EPR and LFPR, and on employment and wages it did not have any statistically significant impact.

During the third analysed period, FDI did not have any particular effect on neither indicator, but a statistically unsupported effect could be noticed on the unemployment rate. Considering these results, we may argue that the crisis had differently influenced the relationship between FDI and the labour markets of the EU10. This proves once again the heterogeneity of the member states and the fact that the EU is not always a shield for the external shocks.

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Comparative analysis of countries in the peer-group based on economic potential and components of sustainable development

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Abstract

The authors study levels of sustainable development potential and determine the positions of Ukraine and other countries in the peer-groups [4], based on individual macroeconomic indicators. The research includes a comparative analysis of absolute and relative terms of GDP, industrial production and the index of competitiveness for the countries included to the peer-groups. The authors analyse the position of countries based on the GDP per capita and components of sustainable development (Quality of Life Index and Security of Life Index). In the article, the authors suggest the methodical approach of performing the comparative analysis of peer-group countries based on their indicators values. This approach gives the possibility to investigate the country's potential in the limits of the chosen peer-group and propose the recommendations for increase of economic potential in purpose of sustainable development achievement.

Keywords: sustainable development, GDP, peer-group, GDP per capita, comparative analysis.

Introduction

Sustainable functioning of national economies in the European region is primarily connected to integration, cooperation and specialization processes of neighbouring countries. Anderson (Anderson, 1979, pp. 106-116) by gravitation model proved that the neighbouring countries has higher level of economic relations. Thus, it is necessary to take into attention both: the European Union countries and former Soviet countries because of their territorial closeness.

For decades, the new production and commercial relations have been formed in the countries, which less than 30 years ago belonged to the socialist camp. During this period, the economic situation and internal relations were changed: some countries significantly lost their economic

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⁴ Peer-group in this research is determined as a group of countries where the ratio of GDP per capita in 1990 can be compared to the similar indicator in Ukraine.

potential after the collapse of the USSR. For example, in 1990, economy of Ukraine occupied 0.36% of the world economy, in 2014 – 0.17%, and in 2015 this value was equal to 0.12%.

To return to the previous position in the world economies list (we will take as an indicator the potential of the economy in 1990) it is required to take considerable efforts and proper scientific substantiation of development strategies at the state level that include the experience of the European countries. Moreover, this difficult way requires a political will at the country's level that will guarantee the transformation of economy. These steps include the choosing of the development's goal.

A significant number of the Eastern European countries were able to create a model of the economy based on competition, implementation of high-tech and science-intensive technologies and usage of the provisions within the sustainable development concept.

We believe that development of modern approaches to increase the economic potential and sustainable development on the basis of the analysis of peer-group countries and certain regions can create a basis of fundamental changes implementation in the economy.

The main purpose of the article is to offer a methodical approach to the analysis of peer-group countries on the basis of macroeconomic indicators and components of sustainable development and define the conditions for realization conceptual states of sustainable development and economic potential of peer-group countries and, especially, Ukraine.

The methodological approach of this research is based on comparative analysis and monitoring of indices dynamics for peer-group at the long-term period. The set of Index of Sustainable Development (that includes indices of Quality and Security of Life), Index of Innovations, Index of the Hi-Tech Production gives the possibility to determine the place of the country among others as an integrate estimation. Thus, the forecast of its development and the current analysis begin to be less subjective. It is necessary to mention, that for now, the methodology of choosing the optimal set of indices for integrated value or hierarchical models doesn't exist. Therefore, for the proposed set of indices we used these methods: checking data (data horizon, trustful sources) and the statistical parameters (mainly correlation to be sure that the values are independent), and the ex-post forecast and expert estimation for analyse the results.

1. Literature Review

A great number of scientific research is dedicated to investigate the issues related to sustainable economic development of countries, including the works of G. Brown (Brown, 2011, pp. 30-40),

S. Imran, K. Alam, N. Beaumont (Imran, Alam and Beaumont, 2014, pp. 134-144), L. Chen, L. Lu, M. Tai, S. Hu and V. Wang (Chen, Lu, Tai, Hu and Wang, 2014, pp. 203-210), and others. Such scientists as K. Prettnner (Prettnner, 2013, pp. 811-834), N. Reimers (Reimers, 1994, pp. 366), K. Lee, B. Kim, Y. Park, E. Sanidas (Lee, Kim, Park and Sanidas, 2013, pp. 561-582), work on economic development and economic potential of countries. However, there are still a lot of relevant and not sufficiently studied issues in this field including the increase of economic potential level, especially for developing countries, and for Ukraine particularly. Therefore, we conducted a comparative analysis of key macroeconomic indicators and components of sustainable development of Ukraine with peer group countries with purpose to detect a negative impact on the rate of expanded reproduction of economic potential of peer group countries and Ukraine and gradual transfer of national economies into a sustainable development mode.

Before analysing indicators of the country in accordance with economic potential and components of sustainable development, we should consider the essence of concepts such as «sustainable development», «sustainability» and «potential» and their interconnection; the nature, classification, types and principles of sustainability; levels of potential expression and potential types of sustainable development. This necessity is caused by variety of the research in this field and the diversity of the definitions that were changed with time and with countries. To the purpose of this research, we are going to use the following terminological base.

The initial meaning of sustainable development of any country, according to G. H. Brundland (Brundland, 1988, p. 50) is «ecological sustainability, where conditions and limits of restoration for natural systems are not violated owing to their operation». To achieve the mentioned environmental (ecological) sustainability of the country it is important to maintain its firmness and stability regularly. This can be achieved by detecting external factors of influence on the ecosystem and solving problems of stability and sustainability in social and economic systems. After revealing factors and solving the relevant problems it is worth considering a number of tasks, classifying and ranking the problems by their value. The power of impact and its critical importance for every factor are separately determined by researchers. For the first time, P. Samuelson (Edited by R. Merton, 1991, p. 199-201) suggested a similar approach to stability analysis, he came up with the idea of it as an «attraction» to a certain point and defined it as a property of the system to back to an equilibrium trajectory after changing the initial conditions.

At the same time, we outlined two main approach for sustainability research in scientific works: it is divided into strong and weak. There are a lot of definitions of “sustainable development” at the research of the following scientists: Bellesi (Bellesi, Lehrer and Tal, 2005, pp. 9-39), Curran (Curran,

2004, pp. 277-283), Efremova (Efremova, 2008, pp. 8-90), Filipenko (Filipenko, 2007, p. 670), Jovane and Yoshikawa (Jovane and Yoshikawa, 2008, pp. 641-659), Shumpeter (Shumpeter, 1982, p. 436), that reflect the complexity of the category and the interests of its investigation. They describe this concept as a result of establishment of the market equilibrium. In general, the scientists determine the following types of stability (or sustainability, or balance): resident stability (steadiness) is an ability to remain in stable (equilibrium) condition under load, and elastic resistance (actual resistance) is an ability to recover with flexibility when the load is removed. Thus, the natural capital, within the strong sustainability, cannot be replaced by an artificial one, and weak sustainability allows substitution of natural capital by the artificial one.

One of the stages of development of economic stability concept is associated with the works of J. Keynes (Keynes, 1926), who believed that the unbalanced market system needed a strict state regulation. His idea was based on the fact that was necessary to influence on the expansion of production and on the supply of goods and services by aggregate demand, and stimulation through regulation of money supply, interest rates and direct public funding.

We share the opinion of scientists who define the sustainable development as «structural and dynamic upheavals that meet current needs, but do not endanger the ability of future generations to meet their own needs» (National Academy of Sciences of Ukraine, 2014). This approach allows to determine the sustainable development as more complex and finalized category.

As noted in the scientific works of A. Zgurovsky (Zgurovsky, 2010, pp. 112-122), the concept of sustainable development is based on five basic principles:

- Principle 1. Mankind is able to provide sustainable and long-term nature of development, in order to satisfy the needs of people today without depriving future generations of the ability to satisfy their needs.
- Principle 2. The restrictions that exist in the exploitation of natural resources are relative. They are associated with the current level of technology and social organization, as well as the ability of the biosphere to heal itself.
- Principle 3. It is necessary to satisfy basic needs of people and enable everyone to realize their expectations for a more prosperous life. Without the above sustainable and long-term development is simply impossible.
- Principle 4. It is necessary to reconcile the needs of those who use excessive means (cash and material) with environmental capacity of the planet, the energy use, in particular.
- Principle 5. Size and rate of growth of the population should be agreed with the production capacity of global ecosystems of Earth, which is changing.

Sustainable development has both qualitative and quantitative criteria related to production methods and caused by the emergence of global processes in the world economy. It is worth mentioning the following essential criteria of sustainable development: knowledge, namely the emergence and strengthening of global economic thinking and its occupation of the meaningful place in the productive forces; creation of global mechanism, and therefore development of national interests into global; analysis and assessment of global risks and their monitoring; growth of equal distribution of income and property; increase the number of renewable resources and reduce of non-renewable; the emergence of interdisciplinary knowledge, new education models for its integration into production; dependence of economic growth on population growth in the world; restructuration of all industries by creating new products and services, including the services of a social nature and others. The above criteria will contribute to global institutionalization of confidence among the population that will enable to ensure monitoring of the planet without interfering in the internal affairs of nations, particularly with regard to security issues and create global coordination mechanism. This will develop scientific and methodological approaches of understanding and creating models of sustainable development and define the vector of economic development, which should be chosen to increase the economic potential and to provide sustainable development and will lead the world economy to a competitive harmonious economic development.

As for the term “potential” (from the Latin “potentia”, which means power, strength, capabilities), the scientists interpreted it differently. It originates from the philosophical interpretations of Aristotle. According to studies, being separated into potential and actual, and formation (development) is seen as a transition from one state to another. In scientific studies, scientists use the term “potential” as a synonym to resources. Accordingly, investigating interpretation of this concept should also identify the nature of reserves and capabilities concepts and the relationship between them. In this regard, we believe that categories such as resources, reserves, possibilities characterize individual manifestations of potential. A correlation between these categories characterizes the magnitude and direction. The above gives reason to believe that the category potential has several levels of manifestation (National Academy of Sciences of Ukraine, 2014):

First level: potential defines the past in terms of reflection of properties, accumulated by a human, which contribute to the human ability to participate in certain activities (potential becomes important resource).

Second level: potential reflects the nowadays in terms of practical use and human use of the available capacity (within the meaning of provision).

Third level: potential is focused on the development (future) (combines such values as "opportunities" and "prospects", and also "capacity" and "ability" in conjunction with the existing set of resources in the state).

Some scientists consider that potential is a complex of various resources required for the operation and development of any system (for example: Zgurovsky, 2007). We believe that a clearer interpretation of the concept potential should be considered from the perspective of achieving the goals. Thus, nature can be represented as a system of factors (environment components) that achieve goals.

For the purpose of this research, we believe it is necessary to agree with the interpretation of this concept stated in scientific work (Socio-economic potential of sustainable development of Ukraine and its regions: national report, 2014): the economic potential of sustainable development, on the one hand, as an economic category, is the result of the interaction of prior (in a particular period) socio-economic relations between man and nature which may be not obvious, but still can occur. On the other hand, it is the basis, the real force (material and energy) of sustainable development, characterized by a system of indicators that reflect not only the resources available, but their reserves, which can be used under certain conditions and opportunities.

It should be noted that the concept of regional and global ecological and economic potential (EEP) is well-detailed by Reimers (Reimers, 1994, pp. 272). In a process of studying it on a global scale, the scientist points out that "the maximum allowable value of anthropogenic impact on all self-organized set of natural systems is the one that does not lead to irreversible destruction of the structure of the population, significant disruptions in the detection of systemic laws and sharp deterioration of the dynamic characteristics of systems". Moreover, he believes "it helps to keep operating reliability of natural systems at local, regional and global levels".

Since we are going to carry out a comparative analysis of the economic potential and the components of sustainable development of the peer-groups of countries, it should be noted that the scientists also use other scientific and methodological approaches to the analysis and evaluation of different types of capacity for sustainable development, that more connected to the environmental, social, institutional aspects.

We are going to analyse one of the major indicators – gross domestic product (GDP) per capita. In terms of "GDP per capita", Ukraine occupied 94th place out of 183 countries in 1990 (The World Bank Data & Research, 2016). After 25 years (in 2014), this indicator decreased to position 129 out of 188 countries. According to the absolute value of GDP in 2014 Ukraine occupied the 60th position out of 187 countries. This is 400 times smaller than in highly developed countries all together

(High income countries). Ukraine's GDP is more than 140 times smaller than the GDP of all EU countries and more than 100 times less than countries of the Eurozone.

Ukraine's contribution to industrial goods production in 1991 was 0.57% and 0.20% in 2013 in the global market. During this period China was marked by quite significant growth - from 2.1% to 19.2%. Countries of «G7» lowered their share over this period, Germany from 8.4% to 4.8%, France from 4.1% to 2.1%, Italy from 4.5% to 2.1%, Japan from 17.8% to 6.0%.

From 1990 to 2014 in terms of "GDP at market prices" Ukraine's growth was only 1.6 times. By the indicator of "GDP at market prices", the economy of the world has increased in 3.5 times. Ukraine in 1990 occupied 0.36% of the world economy, and in 2014 - 0.17%.

But at the same time, it should be noted that Ukraine is one from 9 countries with a complete cycle of aircraft (Gorbachova, 2015, p. 427). The country has considerable resources of the black soil available (23% of European and 3% of the world's black soil) (Stefankiv and Maksymovych, 2012, p. 159). During 1989-1995 Ukraine was at the 1st place in terms of "The scientific human resource potential» (Razumkov Center, 2004). Moreover, out of 120 minerals used by mankind, industry volume of minerals in Ukraine includes 94 species, which are accounted by the State balance of reserves (Pivniak, Beshta and Tabachenko, 2013, p. 8).

Ukraine at the time of getting independence had high economic potential, but have lost it with the time. Economic system began to transform from high-tech to resource. The base of industry bases on 3rd or 4th technological mode. The other countries that are going to be investigate had approximately the same level of development in 1990. The similarity of economic development is a base for defining of the level of sustainability for economic systems for such long period of time. Analysis of the peer group with the usage of Indices of Sustainable Development make the research complete. This type of comparison can give an opportunity to find the ways of development for Ukraine. The complexity of this research is connected to the research subject: Ukraine has 83 from 120 types of natural resources, but doesn't use its potential and scientific base. It is necessary to mention the lack of strategic planning, but it is possible to take the best practices of the similar countries and implement them in Ukraine. These can help in realizing the sustainable economic development and will provide the social effect from the implementation of the sustainable development concept for Ukraine, and simplify its euro integration.

2. Features of the modern weary of economic development

The methodology of the research includes the following stages:

1. Selection of data that characterize the subject:
 - a. search of the open sources with the reliable data;
 - b. check of the existence of the necessary quantity of data (including the data horizon and the availability of data for various countries);
 - c. data analysis for presence of the linear connections.
2. Selection of the peer groups of countries for the analysis:
 - a. specification of the criteria for the countries' selection;
 - b. verification of the necessary data' existence;
 - c. expert evaluation of the obtained set for the peer group.
3. Calculations and analysis of the received results.
4. Conclusions and recommendations for the decision-makers.

The Global Competitiveness Index (GCI) is a global research that evaluates the economic competitiveness of countries and ranks them by the results. The choose of this index for analysis is based on its well-developed and verified methodology and usage of the open-data for its calculations. In addition, this index includes qualitative and quantitative parts that as results can give information that is more objective about countries. From the first presentation of the index in 1979, the method of its calculation had been changed twice. The current approach was implemented in practice by American economist Sala-i-Martin Xavier (World Economic Forum, 2017). It consists of a combination of public statistics and the results of a global survey of CEOs. The survey is conducted by the World Economic Forum together with leading research institutes and organizations in the countries that are analysed. Experts of the World Economic Forum make annual report called the "The global competitiveness" since 1979. This report describes the results of the evaluation of more than 100 countries on indicators: the index of potential growth and competitiveness index. Competitiveness Index c includes 113 variables through which any country of the world can be described at different levels of economic development. It should be noted that two-thirds of variables are the results of survey of leading companies' CEOs (for the analysis of factors affecting the business climate countries). All 113 variables are grouped into 12 sets of indicators by which competitiveness of the national state can be defined. These twelve indicators include such indices as quality of institutions, infrastructure, macroeconomic stability, health and primary education, higher education and training, efficiency of goods and services, labour market efficiency, financial market

completeness, technological development, size of the domestic market, the competitiveness of companies and innovation potential. Thus, the Global Competitiveness Index reflects in direct or indirect way different aspects of country economy. Table 1 illustrates the positions in the ranking for a definite peer group of countries in 2014-2015 and 2015-2016 years based on The Global Competitiveness Index (World Economic Forum, 2016).

Table 1. Positions of countries in the ranking of The Global Competitiveness Index (World Economic Forum) for the peer-group in 2014-2015 and 2015-2016 years

Ranking during 2015-2016	Country	Value (score)	Ranking during 2014-2015
28	China	4.89	28
31	Czech Republic	4.69	37
40	Azerbaijan	4.50	38
41	Poland	4.49	43
42	Kazakhstan	4.49	50
45	Russian Federation	4.44	53
51	Turkey	4.37	45
53	Romania	4.32	59
54	Bulgaria	4.32	54
60	Macedonia	4.28	63
65	Cyprus	4.23	58
66	Georgia	4.22	69
67	Slovakia	4.22	75
79	Ukraine	4.03	76
81	Greece	4.02	81
82	Armenia	4.01	85
84	Moldova	4.00	82
93	Albania	3.93	97
102	Kyrgyz Republic	3.83	108

Source: own representation based on the data retrieved from World Economic Forum

For 25 years, the countries from the list above were dispersed from 3.83 to 4.89 by the index of competitiveness of economies. Ukraine has taken a middle value (average value is 4.41 and Ukraine is 4.03). Thus, even during the war that occupied the Donbas region and the annexation of the Crimea by the Russian Federation this position has been decent. So, we have a slight decrease according to the ranking of Ukraine during 2015-2016 (79 position) in comparison to 2014-2015 years (76 position). According to the table, except Ukraine the lowest value of the analyzed indicator was estimated in such countries as Greece, Armenia, Moldova, Albania, and the Kyrgyz Republic. The highest value of the studied parameter is in China with a number of 4.89, which is 0.86 higher than

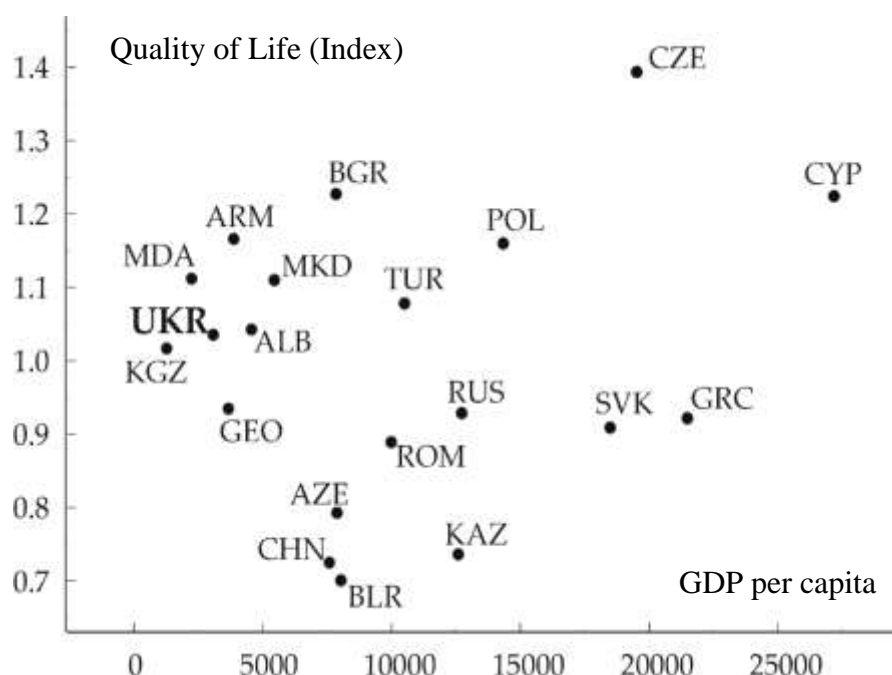
in Ukraine (4.03). In addition, by the results of this indicator an important place is occupied by Czech Republic, its global competitiveness index was – 4.69, which is 0.66 more than in Ukraine.

For a more qualitative comparison let us consider the visualization of countries placement in the coordinates system of GDP per capita and Quality of Life Index (Figure 1). The methodology of calculating the Quality of Life Index was developed by «Economist Intelligence Unit» and is based on the relationship of the results of research on subjective assessment of quality of life in the countries with the objective determinants of quality of life in these countries. For the first time, the index was calculated in 2005, and included data of 111 countries (Economist Intelligence Unit, 2005, 2013). A large number of countries have not been included in this ranking in 2005 because of the lack of data for evaluation. Such indicators as health, divorce rate, public life, material prosperity, political stability and security, climate and geography guarantee of political freedom and gender equality were taken into account. In 2013, the Organization of Economic Cooperation and Development (OECD) published the Quality of Life Index that includes such parameters as housing, the difference in income, employment, education, environment, health, safety, satisfaction with life and others. Each parameter was scored, with the maximum score of 10. First place according to rating in 2013 was occupied by Australia, the last – by Turkey. Though, the compilers of the rating had marked one country positively – Israel, which has taken the 24th place at that time. According to the rating of quality of life index in 2013 life satisfaction in that country was – 7.9 points, security – 7.3 points, and the rate of health care, outlined by researchers, was - 8.9 points (Economist Intelligence Unit, 2005, 2013). The Russian Federation received the highest score (8.5) in terms of "value of work and leisure" in calculation of the quality of life index in 2013. Israel received only 5.5 points for the same indicator. However, in terms of "life satisfaction" Russian Federation received only 3 points, and 0.5 points for "health care" (Economist Intelligence Unit, 2013). The values of the Index of Quality of Life for the 2014-2015 are presented in figure 1.

Most of the countries, that are investigated, have the average level of the Index of Quality of Life and have the average GDP per capita near \$5000-10000. But it is necessary to mention, that for example, China as a country with strong economy has low level of development in the peer group.

The position of Ukraine is quite similar to the positions of Moldova, Kyrgyzstan and Albania. The countries rank lower places by the competitiveness index: the position of the countries in the coordinates system gives a base of state the interrelation between of GDP per capita, the quality of life in the country and the competitiveness of countries.

Figure 1. Visualization of the placement of countries in the coordinates system of GDP per capita and quality of life index



Source: authors representation based on the data retrieved from World Data Center for Geoinformatics and Sustainable Development

The position of Cyprus in the coordinates system deserves the attention of scientists. It is an island country, which has a developed banking system. Significant financial assets of Ukrainian business owners are included to the financial system of Cyprus. That financial sector largely contributes to high positions of Index of Quality of Life and GDP per capita. Czech Republic and Bulgaria illustrate high level of life quality in this peer group.

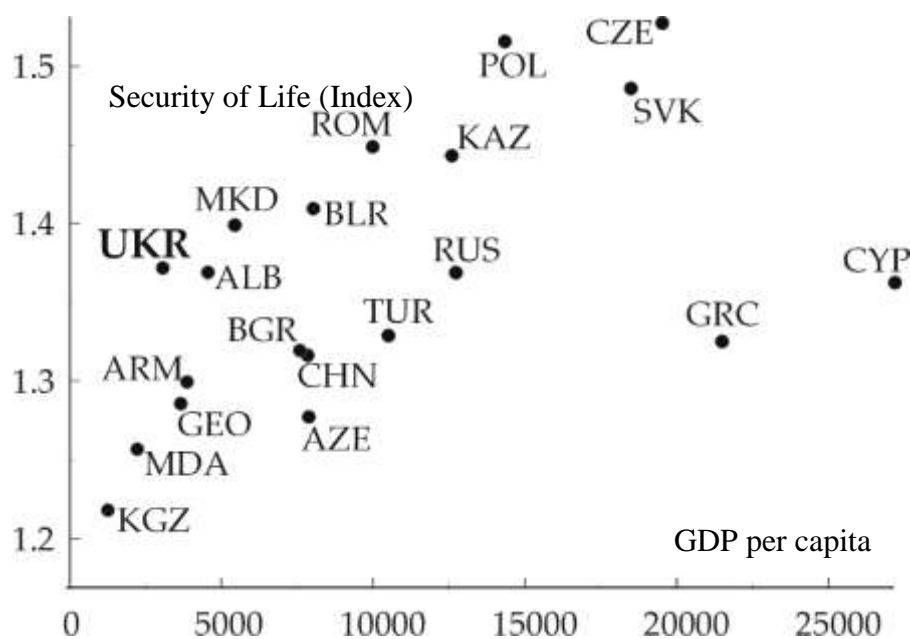
Another component of sustainable development is the Index of Security of Life. Figure 2 illustrates the visualization of rank of countries in coordinates of GDP per capita and the Index of Security of Life.

The main part of the countries in these coordinates has equal distribution of the level of life security. In general, the level of countries in accordance to this index is high. Therefore, the group of countries that are investigated has a close level of development in the field of the life security during previous 25 years.

In Figure 2 coordinate system, Ukraine is close to Macedonia and Albania. Unfortunately, the situation in the Donbass region has certainly influenced to the position of Ukraine.

Countries of the former Soviet Union have the worst values of life security and GDP per capita. Among a core group of countries, Greece and Cyprus have the average values of life security and high values of GDP per capita.

Figure 2. Visualization of countries placement in coordinates of GDP per capita and the security of life index



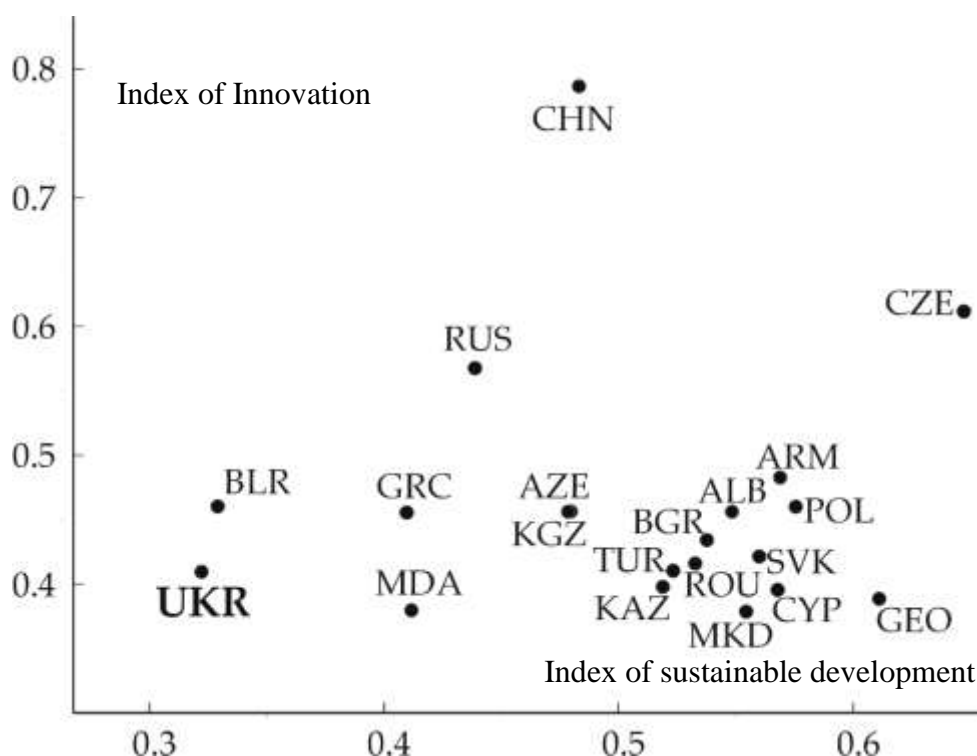
Source: authors representation based on the data retrieved from World Data Center for Geoinformatics and Sustainable Development (World Data Center, 2016)

Summarizing the analysis of these dimensions of sustainable development, it should be noted that the important component of economic development of the European countries is and will be an applying of the concept of knowledge economy, where application of intellectual potential of a person occupies a significant place. The realization of this potential is reflected in the high-tech, knowledge-intensive, innovative developments.

For peer group analysis in Figure 3, the visualization of the rank of the countries in the coordinates system of Index of Sustainable Development and Innovation Index is presented.

The different picture for Innovation Index appears in the coordinates of sustainable development. In this case, it is difficult to determine the dispersion clouds, but it is necessary to mention that most of the countries from the peer group are in the zone of high level of sustainable development and low level of innovations.

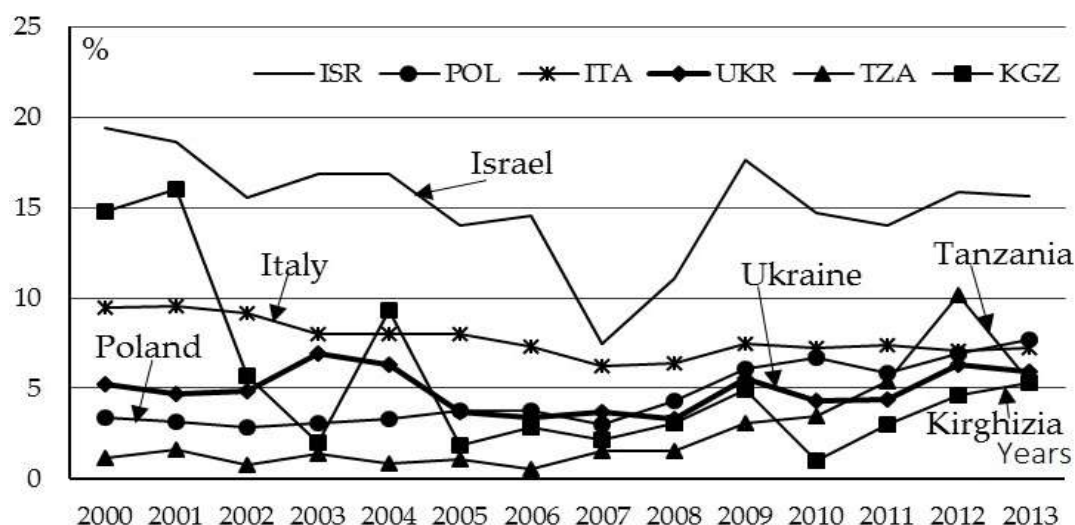
Figure 3. Visualization of countries ranks in the coordinate system of Index of Sustainable Development and Innovation Index



Source: authors representation based on the data retrieved from World Data Center for Geoinformatics and Sustainable Development (World Data Center, 2016)

As we can see on this coordinate system, Ukraine is near Bulgaria and is quite far from China that is the leader in export of goods with a significant part of the high-tech ones. The values of Innovation Index are significant for the Czech Republic and the Russian Federation. Most of the peer group countries have the values less than 0.5 for this index. This shows the low development level of these countries in the high technology field. It should be noted that there is a rather low position of Ukraine in this coordinate system. The value corresponds to values of Moldova, Kazakhstan, Macedonia, Cyprus, Georgia. The dynamics of high-tech export of Ukraine is shown in Figure 4.

Figure 4 shows the place of Ukraine in the export of high-tech production. Unfortunately, even the success of Tanzania and Kirgizia has more attention.

Figure 4. The dynamics of high-tech products as compared to the total export of individual countries

Source: authors representation based on the data retrieved from The World Bank Data & Research (World Bank, 2016)

This production is generated on the basis of high technology knowledge: its exports fluctuates between a maximum value of 6.9% (in 2012) to a minimum value of 3.3% (2008) since 2000. By the way, the limits for China ranged from 30.8% to 19.0%. We should also mention Philippines, where the high-tech export within a maximum of 74.2% and a minimum of 46.4% (The World Bank Data & Research, 2016). Table 2 illustrates the ratings and there is a relative importance of high-tech products in the total exports in the countries in the peer group for 2000 and 2013 for a more thorough analysis. 2013 is the year before the beginning of the war for Ukraine.

Table 2. Ratings and relative importance of exports of high-tech products to total exports of peer-group

Countries	2000	Countries	2013
1. China	19.0	1. Kazakhstan	36.9
2. The Russian Federation	16.1	2. China	27.0
3. Kyrgyzstan	14.8	3. Czech Republic	14.7
4. Greece	13.7	4. Azerbaijan	13.4
5. Georgia	10.9	5. Slovakia	10.3
6. Czech Republic	8.5	6. Russian Federation	10.0
7. Romania	5.9	7. Bulgaria	8.0
8. Ukraine	5.2	8. Poland	7.7
9. Turkmenistan	5.0	9. Greece	7.5
10. Turkey	4.8	10. Cyprus	7.2
11. Armenia	4.7	11. Ukraine	5.9
12. Azerbaijan	4.6	12. Romania	5.7
13. Belarus	3.8	13. Kyrgyzstan	5.3
14. Slovakia	3.6	14. Belarus	4.4

15. Kazakhstan	3.6	15. Macedonia	3.7
16. Poland	3.4	16. Armenia	2.9
17. Moldova	3.1	17. Georgia	2.6
18. Bulgaria	2.9	18. Moldova	2.4
19. Cyprus	1.7	19. Turkey	1.9
20. Macedonia	1.2	20. Albania	0.5
21. Albania	0.7	21. Turkmenistan	..
22. Uzbekistan	..	22. Uzbekistan	..

Source: authors representation based on The World Bank Data & Research (World Bank, 2016)

The analysis of the table shows that in the period of 2000-2013 the volume of high-tech exports increased slightly, but in the ranking of peer group Ukraine lost 3 positions because of the fact that significant number of countries improved their performance. Industrial production in Ukraine's GDP decreased from 50.9% in 1992 to 25.4% in 2014. At the same time, the «Big Seven» had a growth of 19.4% to 38.1% for the period from 1997 to 2014. The military aggression of the Russian Federation in 2014-2016 years decreased both Index of Quality of Life and Index of Security of Life.

The countries with similar start positions in 1990 significantly changed their economic systems during 25 years. According to the given data, the most possible models for development of Ukraine, especially the innovative development, should be focused on the Chinese model. Today Ukraine's economy equals to 1/830 of the world economy in comparison to 1990, when such ratio amounted to 1/280 (World Bank, 2016).

The conducted analysis of the indicators suggests that the global economic crisis of 2008 affected negatively the rate of expanded reproduction of the economic potential of Ukraine, which resulted in the gradual transfer of the domestic economy to the sustainable development mode. The predominance of raw orientation branches and those focusing on low value-added production influenced negatively to the structure of the national economy. In particular, the balance of payments deficit was affected, which is related to the decrease in demand for products of domestic exporters.

It should be noted that a negative factor of economic potential and sustainable development of Ukraine is the lack of systematic policy aimed at decreasing the dependence of national economy on the energy import and introduction of energy-saving technologies. It should be also mentioned that the resistance to the aggression of the Russian Federation and imperfection of state financial system do not result in the opportunities to effectively use internal reserves of economic development of some regions of the country. Therefore, there is a need to reconsider strategic priorities for increasing the economic potential of the state, which will be an urgent review of its sustainable development.

In order to provide the economic potential and sustainability, countries should develop a specific set of activities and tools which would be aimed at quantitative and qualitative changes in

the energy efficiency indicators; selection of the most significant regressors that affect the formation of economic potential for sustainable development; raising the level of the economic security of peer group. The above-mentioned measures cause a significant increase in prior potentials of countries surveyed, namely: industrial, natural resources, innovation, information, economic security, energy performance and potential of structural changes in economy.

The analysis gives the possibility to determine the strong sides of the countries strategies and cumulate them to one set of the recommendations. Thus, the countries of peer group should pay attention to the following:

- usage the eco-friendly technologies for economic development that will enable the achievement of higher levels of welfare and facilitate the solution of resource, ecological and social issues at the same time;
- reproduction and rational usage of all kinds of resources, including the introduction of effective natural resources management system and environmental protection, maintaining the ecological balance, etc.
- ecological and economic restructuring of industry, agriculture, services, and also coordination of purposes and activities aimed at the development of branches and regions, individual enterprises and their associations that are part of the social-ecological-economic system of the peer group country;
- cooperation with international organizations on issues of sustainable development and the resource and environmental problems based on innovative economic development;
- introduction of the best experience to the practice of management, implementation of advanced scientific, technical and social-economic achievements;
- establishment of the principles of social justice, overcoming social problems and, thus, stabilization of the demographic situation in the country, reducing mortality and prolongation of life etc.;
- usage the conceptual provisions of sustainable development for the purpose of energy-saving, development of the knowledge economy.

The above will contribute to acceleration of economic potential and achieving the sustainable development of peer-group countries, including Ukraine.

Conclusions

The offered methodical approach to analysing countries in the peer-group during a significant time period is based on macroeconomic indicators and components of sustainable development, allows us to detect a position and capacity of the country within the selected peer-group.

The above analysis allows to define the following terms for implementing conceptual provisions of sustainable development by countries of peer-group.

Thus, the comparative analysis based on data of 1990 and 2015 for peer-group of countries for economic potential and the components of sustainable development gives the possibility to make the following conclusions:

First of all, the analysis of literature, gives the possibility to approve that there are a lot of research from the current problematic, that were hold during the long time period.

Second, the economy of Ukraine had a high potential in 1990. There are still some possibilities to use this potential nowadays that is proved by high level of the Index of Competitiveness. The same we can see for the Quality of Life Index and others components of sustainable development.

Third, the proposed methodology gives the possibility to find the regularities in the development of the similar from the view of the economic development countries for long term periods.

Fourth, the monitoring of the export dynamics for hi-tech products for the peer-group gives the information that the significant development for hi-tech fields in long term perspective is complicated.

Fifth, the next research could be done in the direction of the forecast of the development of the economic system, taking into account the governmental activities that can influence the dynamics of sustainable development indices.

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The CEE housing markets before, during and after the transition: an overview of property prices and home ownership rates

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Abstract

The purpose of this research is to investigate relevant economic aspects, which characterized housing markets from Central and Eastern European (CEE) countries, to identify the factors which determine the house prices and to find the economic implications of property investments, under an international micro and macroeconomic environment. Methodological, the article uses the deduction and comparative analysis of collected statistical data, and strategic reforms in post-communist countries are qualitatively explored through content analysis. In the case of CEE region, fundamentals determinants, such as real income, real interest rate, demographic factors, play an extremely important role in explaining house price distortions. The principles of communist ideology added a special note in the evolution of prices, so the home ownership rate, the housing quality, the financial housing system, European integration represent a number of traditional factors with significant impact.

Keywords: CEE countries, housing prices, home ownership, privatization

Introduction

The process of transition, embedded in the paradigm of transition from centralized to market economy, triggered turbulence and tangible adjustments in the housing systems of the post-socialist states. Despite all historical and cultural differences between states, the Central and Eastern Europe (CEE) is often perceived as homogeneous due to the presence of the ideology of socialist regimes being in power (Tsenkova, 2009, p. 2). In the CEE, economic, political and social restructuring, with democratic and capitalist orientation, directly affected the housing sector, emphasizing the significant differences of the way of applying the communist system, as the living conditions from one country to another (Clapham *et al.*, 1996). Thus, through the general process of transition from communism to democracy, the performance of the housing sector reflects the legacy of socialist principles and the political approach. These results lead to the evocation of a hypothesis of divergence in the development of residential systems from Western Europe and CEE, as well as in the group of post-socialist states, since the theories of convergence are not enough adequate in the conceptualization of housing.

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The major economic reforms implemented at the end of 1980s outlined important steps related to the residential domain by reducing government control, subsidizing housing, and increasing the quality and guidance of residents in housing choices (Banks *et al.*, 1996, p. 137). In the development of the private residential sector, each country acted independently through the approach of three main strategies: decentralization, privatization and rental reform. Decentralization involves the transfer of ownership and financial responsibilities for the state-owned housing stock to local governments, with corresponding reductions in the grant of construction, utilities and maintenance grants. The basic strategy in developing reforms is represented by housing privatization, by transferring state-owned property rights, former tenants, under extremely favourable conditions (under-market prices, minimum interest rates, long-term payment stagnation). The rental reform consists in the allocation of dwellings in the form of rents, the establishment of housing allowances, but the diminishing the tenants' rights. The formation of residential markets in the post-communist countries was largely correlated with privatization, which subsequently contributed substantially to the increase of the home ownership rate.

The CEE countries explored in research are grouped and analysed by participation in European integration, thus outlining the two big groups – member countries of the EU and non-EU countries. To provide an overview projection about residential sector features from this European region by identifying determinants that influence the evolution of housing prices and home ownership rates, it is opportune to explore, theoretically and empirically, the impact of reforms practiced by the post-communist countries in transition process on the economic, financial and social environment. Methodological, research paper analyses residential market specific in Central and Eastern Europe, in terms of housing price developments and home ownership rates, through an adequate methodological triangulation. The quantitative approach supposes a general direction type positivist – explanatory using methods and techniques like deduction and comparative analysis of statistical data obtained for indicators. Specific strategic reforms applied in post-communist countries analysed is explored qualitatively through a content analysis of the literature – country monographs on housing reform, published reports and research papers.

In this context, the paper provides an overview, built in a systematic and descriptive way, on the evolution of residential markets in CEE countries, starting with the transition from centralized to the market economy. The results of previous research and the collected information about housing price trends and tenure structure, in a cross-country perspective, allow the observation of the complexity and diversity of the region. The article covers theoretical aspects in an interpretative way, relying on a mix of the quantitative and the qualitative approach applied to the economic and social context of housing system. Theory has become for research papers the deepest form of expression

and definition of the housing sector. Jim Kemeny (1992) criticized the empirical approach to real estate research during the transition period, which was overly dominated by political concerns. He thought that a type of this research was not supported by epistemological and ontological elements, isolating social problems.

A first step in structuring research is the review of literature in order to identify the essential papers supporting the great ideas that define and describe the features of housing markets in the emerging countries of the CEE region. The period of communism occupation has left one of the profound and oppressive marks on the organization of the housing stock, which has become a shadow over the years, following the overall development of these states. A general overview of historical, economic, social and cultural evolution is outlined in the second chapter, in order to highlight the defining aspects of the transition period and the causes that have pushed these exponential changes. The CEE region is characterized by a large number of home owners, compared to Western states, which present a much more diversified tenure structure. In this context, the time approach of tenure concept explains the fluctuations of these housing organization and allocation. The basis of these forms of ownership is the way of assigning and acquiring residential properties, focusing in particular on price or rent, which has led to the shaping of some distortions in economies. The convergence and divergence theory is used to appreciate the specific of the formation and development of CEE residential markets, based on the premise of the communist ideology and the results of the applicability of its principles.

1. Literature review: a historical and empirical overview of housing market in CEE countries

The fall of the Berlin Wall in 1989 marked the end of the communist regime and the beginning of the period of transition of the countries under the socialist domination to democracy and capitalism, becoming an extremely exciting subject for researchers. In the last 25 years, numerous articles have been published about the transformation of the housing system in Central and Eastern Europe. The first studies made, just after the end of the socialist system, concentrate on assessing the visible progress of housing reforms applied in transition economies, focusing on housing stock privatization, decentralization of the residential market and restructuring the housing construction (Baross and Struyk, 1993; Hegedüs *et al.*, 1996; Renaud, 1995; Struyk, 1996; Tosics and Mayo, 1996; Turner *et al.*, 1992). Other researches, comparatively, explore the application of policy instruments in the context of the implementation of a housing system oriented to the market economy. Lux (2003) shows interest in the economic and social reforms developed in the public housing sector. Clapham (1995) and Roland and Verdier (1994) analyse the reform of privatization of living spaces, Hegedüs (2002),

Renaud (1995), Struyk (2000) and UNECE (2005) examine the ways how to finance dwellings. Most studies realized aim to surprise the importance of the transition process by investigating trends and relationships between changes in housing supply, the structure of property rights and their financing.

Even though there is a great diversity in the development prospects of post socialist countries, a consensus has been reached on indicators for measuring progress on restructuring residential systems based on market economy principles, defined by international and national commitments between public and private institutions. In 1990, the United Nations Centre for Human Settlements (UN-Habitat) and the World Bank, with the support of the United States Agency for International Development (USAID), have developed the Housing Indicators Program to provide an analytical framework for assessing the performance of the residential sector based on data collected from 53 states on each continent in different stages of economic development (Hegedüs *et al.*, 1996, p. 3). The set of descriptive elements of residential markets refers to: forms and property rights, housing prices and accessibility, quality and quantity, production and investment, financing, granting subventions, policies and institutional arrangements. In literature, we find various combinations of indicators for assessing and evaluating the performance of residential markets, focusing on efficiency and effectiveness. The diagnosis, materialized in a study realized by Hegedüs *et al.* (1996), provides the first quantitative and comparable results on the residential market performance in CEE. The authors argue that the experience of the first 4-5 years of transition is manifested in the majority of countries by the development of highly decentralized housing systems and the creation and application of an informative system for assessing the sector performance based on a system of relevant indicators at the regional level, is extremely necessary (Hegedüs *et al.*, 1996, p. 53). In 2001, Buckley and Tsenkova (2001, p. 7) developed a model for assessing political reforms and residential market performance, taking into account three of the most important political areas affecting the housing sector in reforming the socialist economies, namely: fiscal policy, financial policy and real estate policy. Significant constraints of information, limited data on the housing system, the dynamic nature of the transition process, combined with the differences between real estate market actions and related policies make difficult the complex analysis and interpretation of the indicators.

The housing tenure structure in the post-communist countries has suffered major changes after 1990. The share of rented dwellings in the public domain has strongly diminished, compensating by the increasing the occupancy rate of the dwellings by the owners (Hegedüs and Tosics, 1998; Lux, 2003; Struyk, 1996), the cause being the large-scale privatization and the properties restitution of the former tenants. Large fluctuations of the residential property prices in developing European countries recorded over the past two decades have increased the interest in analysing real estate market developments. The empirical literature regarding the dynamics of housing prices in CEE countries is

limited, as compared to achieved studies concerning the developed or developing countries from other regions of the world. Recent studies provide an image, in empirical data, about the determinants of prices from the residential markets in CEE countries (Ciarlone, 2015; Égert and Mihaljek, 2007; Hildebrandt *et al.*, 2012; Huynh-Olesen *et al.*, 2013). The research made by Égert and Mihaljek (2007) is the first that analyses the decisive factors of housing price developments in the CEE region, taking into account besides the specific empirical variables, such as available income, interest rates, credit forms and demographic factors, and the specific features of the transition from the planned economy to the market economy. The price distortions, the diversity of tenure structure and the different policy outcomes have led researchers to approach the convergence and divergence theory in the analysis of residential property markets. Hegedüs and Struyk (2005) follow to appreciate the forms of financing sector in CEE countries by establishing the elements of divergence and convergence.

The complexity and internationalization of the economic environment, the evolution of the macroeconomic determinants justify the orientation of the scholars towards the integrated approach of the analysed subject (economically, socially and environmentally) (Mironiuc and Bedrule-Grigoruță, 2007). The transition from the planned to the market economy has been an important prerequisite for expanding housing studies as an academic field. The research of house prices determinants is limited to several empirical studies that analyse the effect of the conventional fundamental determinants and some transition specific factors.

2. The CEE housing markets before and during the transition

The historical evolution of the housing sector from the CEE countries was largely determined by the “role of the sector in the socialist orthodoxy of the region – designated rather as a social than an economic” (Hegedüs *et al.*, 1996), but which, however, requested a significant demand of resources from the state, as housing was an eligible right for all citizens. The transition to the market economy was the main development goal of the 1990s, whereas almost one third of the world's population lived in the socialist countries, dominated by centralized planning, as well as the fact that most of them have implemented institutional reforms and economical restructurings since 1989, absorbing large amounts of resources for technical, political and social assistance from the European Union, the USA, Canada, Japan and other developed countries (Renaud, 1995, p. 35).

The process of developing and implementing economic reforms is not a new aspect for the socialist economies before the collapse of the communist regime, as the history of these countries is marked by numerous attempts to revive the economy and to remedy the secular decline. The transition

process of the housing system in CEE countries has been implemented in two consecutive phases, with a focus on reforming and restructuring. Firstly, the first political and regulatory changes since 1989 aimed the consolidation of the market forces, by reducing the state intervention and the privatization of public assets. Privatization in post-socialist countries was achieved through the sale of assets, restitution and transformation of cooperatives in condominiums. The second phase of the transition from the mid-1990s was manifested by “trial and error”, due to excessive concentration on the problems that needed remediation and less on effective strategic interventions. Political incrementalism has evolved into complex relationships, bureaucracy and interest groups.

“The practical implementation of housing reforms in the different countries is directly related to the new directions in housing policy, the process of economic restructuring and the wider context of social and political change” (Tsenkova, 2009, p. 65). Thus, after 1989 the aims of the adopted reforms proved to be differentiated, from one country to the other, in response to the transition to democracy and market economy. The states in transition had to implement macroeconomic stabilization programs, microeconomic liberalization and, at the same time, to be engaged in major changes of the political institutions and economical system. In this situation, radical reforms had proved to be more effective, unlike to their gradual application. Balcerowicz (1994, p.52) defines the shock-type or radical transition to the market economy and the private system as being a “transition whereby all the constituent processes are implemented with their maximum possible speed”, an example being Poland in the 1990-1991 years.

This “shock therapy” or “big bang” of post-communist transformation has affected the effectiveness of economic, political and social development in a different way, and the first negative effects have been felt immediately. With the limitation of state control, there were also interruptions of trade agreements between these countries, which led to significant decreases in production. The initial liberalization of prices, after decades of control, was reflected in the sharp increase of inflation (Table 1). The transition consequences from the centralized economy to the market economy were remarked in the transfer of resources between the economic sectors, affecting, especially the energetic sector housing construction and the exploitation, due to the distortions created between the socialist prices and the current market prices. The residential sector suffered an extremely severe decline, as the state was dominating through absolute control the access to housing finance and land acquisition, the supply and price of building materials. A brief appreciation of the residential sector performance during the communist and transitional periods, relied on the indicator system developed by Hegedüs *et al.* (1996) is presented in Annex 1. This form of presentation puts the market economy principles in front of those specific to the socialist economy, taking into account the following key areas:

- Housing tenure and property rights;

- Housing prices and affordability;
- Housing quality and quantity;
- Production and investment;
- Finance;
- Subsidies;
- Policies and institutional arrangements.

Table 1. Inflation rate in CEE countries, 1992 – 1996

	1992	1993	1994	1995	1996
Armenia	1241.2	10896.1	1884.5	32.1	5.8
Belarus	1557.8	1994.0	1959.5	244.2	39.1
Estonia	942.2	35.7	41.6	28.8	15.0
Georgia	1178.5	7484.1	6473.6	57.4	13.9
Latvia	958.2	34.8	26.2	23.3	13.2
Lithuania	1162.5	188.8	45.0	35.5	13.1
Moldova	2198.4	836.0	116.0	23.8	15.1
Russia	...	841.6	202.7	131.4	21.8
Ukraine	2001.0	10155.0	401.1	181.4	39.7
Average	1405.0	3607.3	1238.9	84.2	19.6
Median	1209.9	841.6	202.7	35.5	15.0

Source: IMF (1997)

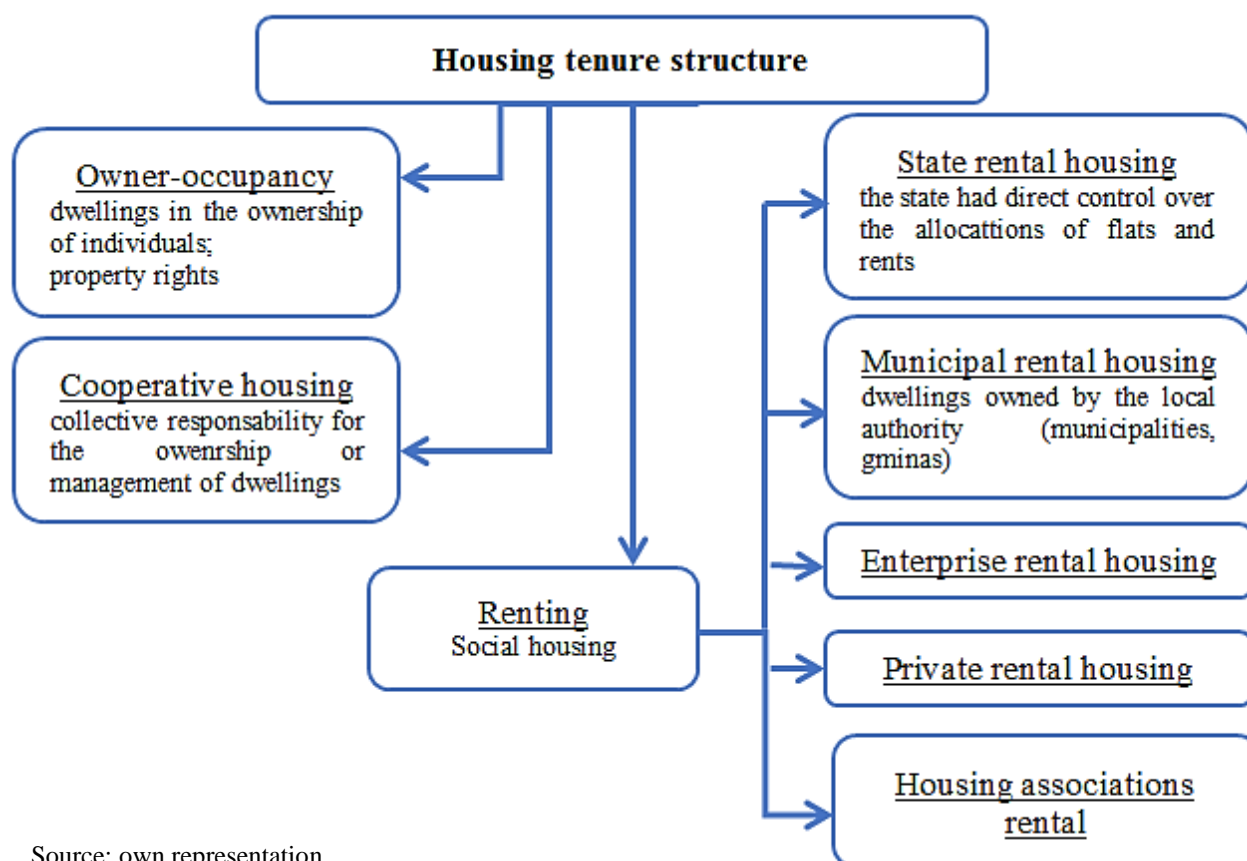
The housing system in the CEE countries was different from that in the West, determined by extremely limited and regulated tenure structure and property rights, limited options in choosing the type and location of the dwelling, low mobility and housing turnover, monopoly and inefficiency in the construction industry, underdeveloped financial institutions and instruments, inefficient targeted subsidies, regulatory framework that did not meet consumer needs and environmental sustainability.

3. The concept and role of tenure structure in CEE countries

Tenure structure varies from one country to another, both through the way of defining and regulating legislation, and by the influence of specific cultural factors. The tenure concept derives from the ownership right, originated in feudal system, and which was subsequently taken over by the housing market regulation policy, to distinguish between the properties occupied by the owners and the tenants in the private or public environment (local authority, association of tenants). From a certain perspective, social phenomenon has outlined the concept's size, assigning its practices and rules, which were later institutionalized as a guideline in the residential sector. The complexity of this framework defines the housing sector through a three-dimensional vision - properties are assigned a monetary value that can increase or decrease, constitute consumer goods that are used to meet needs

and, finally, acquire emotional value. Thus, as a whole, tenure structure refers to the legitimacy of how people get possession of residential homes as consumer goods.

Figure 1. Housing tenure structure in CEE countries



Source: own representation

Peter Kemp (1987, p. 4) argues that the property forms must be regarded as a historical complex of rights and obligations, “the precise mix of which is liable to some important variations, albeit within limits”. The complex core of rights and duties define the two major forms of ownership: home ownership and renting. National history and specifics give them the defining features, but by juxtaposition, the two forms can be viewed in a general way. Under the control of the communist regime, the right to private property, according to Marx and Engel's aspirations, has become a common property right for social well-being.

The tendency towards decentralization, privatization and liberalization has emphasized the transition from the centralized economy to the market economy of CEE countries. Policies that were applied in the residential sector, through social housing projects in the public domain, in the form of privatizations or refunds, have been the measures for the majority of European governments in recent decades. The tenure structure in post-communist countries has undergone major changes since the 1990s, marking the deviation from the command system in housing insurance, through the real estate

markets liberalization and public housing privatization, which are considered to be emblematic in initiating the reforming process. The property forms during the communist regime were among the most diverse (Figure 1), which were reflected in the variation of the occupancy rate of the living spaces in the CEE countries. The state exercised a greater control over the residential systems in the Czech Republic, Poland, Romania, the Baltic countries, unlike Bulgaria, which owning in the private system more than 90% of the total housing at the end of the communist era (Annex 2). The discrepancies between rates were reflected in the investment projects, the organization of production and the support offered by each state in the development of the housing stock. The socialist policy was pointed towards the population's concentration in large industrialized urban areas, giving jobs, and at once apartments for rent.

The privatization of state enterprises and housing cooperatives has expanded the number of owners, contributing to the creation of “nations of homeowners” (Tsenkova, 2006). The reform of privatization has manifested itself in various forms, namely by the transferring rents at market levels, the contracting services by agencies, and the transferring property rights to former tenants. In the international literature are discussed two approaches of housing privatization: the Great Britain's policy “Right to Buy” and the initiated policy by the CEE countries – the massive sale of social housing. If in the Anglo-Saxon countries, the role of reform has developed from ideological and electoral considerations of the neoliberal agenda in order to encourage the private properties, then in the post-communist countries – the privatization represents the result of changes in political regimes in the late 1980s to re-establish the principles of market economy (Aalbers, 2012, p. 433). The demarcation between ownership and rent, both private and public, was often vaguely established within the socialist systems. During the 1991-1999, about 28% of the housing stock in transition countries from Eastern Europe and the former Soviet Union was privatized, ranging from 7% in Georgia to over 60% in Estonia (Yemtsov, 2007). Shortly after the collapse of the communist regime, it became very clear that these states, being in transition, have inherited a highly inefficient managed residential system and that the main problem they faced was not the shortage of housing, but in poor quality, their localization and wrong allocation (Hegedüs *et al.*, 1996).

In the socialist period, the CEE countries were introduced the socialist housing model, based on absolute state control over all aspects of housing policy. During the transition period from the centralized to the market economy, the housing sector was not a precursor for free market forces. As a result of the privatisation, transition countries citizens became homeowners, public dwellings became residual, and renting was no longer a viable alternative for public. Reducing the responsibility of the state for housing has contributed to the development of a housing system without social

protection from the state. Thus, the residential sector in post-socialist countries remained as different from the European housing sector as in the socialist period.

4. Housing price distortions in CEE emerging countries

Starting with 1990, the initiation of the transition process from planned economy to a market economy, the residential prices of the countries CEE have recorded significant fluctuations, causing most of the devastating effect on the financial market. A specific trait of the residential boom- consists in the appearance of some fundamental factors, describing movement upward in house prices, such as increased revenue, which provides an opening wider access to credits. However, the uncertainty and the safety of these developments, at the moment lead, to a final, toward recession. The evolution of the residential property prices, which constitutes one of the most important sources of wealth of households, is located in close connection with the real economy and the financial sector. The fluctuations of house prices directly influences the consumption and investment decisions, but the most is affected the transactions with real estate that involves the credits of the banking, where property is used as guarantee. Through this mechanism, the price changes and affects the net debt of households and future capabilities for the reimbursement of loans. In the long-term, financing of the residential property could have an impact on the financial stability and on the economic sectors, how is construction.

4.1. Housing prices during the transition period

The residential markets are the least transparent markets, taking into account the characteristics of the private individuals, involving the difficulties in the collection of comparable data. During the transition period, the prices established for the sale of the socialist dwellings and the value of the rents have very distorted, in comparison with the resources concerned cost. For the planned economy, prices were not the primary mechanism of the allocation resources, which emphasizes the both significant distortion (Renaud, 1991, p. 22):

- The politics practiced were facing toward the values of the rents below the level of the market, being the direct cause of the demanded excess of the expenditure lifted with the maintenance of existing stock. The value of the rents recorded is covering a total of more than 25% of the necessary funds and in 1990 was 5.7% of total revenue recorded in Eastern Europe, unlike Western Europe, where the actual rents had a percentage of 15.9% (Hegedüs *et al.*, 1996, p.

104). These differences reflect the presence of state control over the management of the rents in the countries dominated by the communist regime;

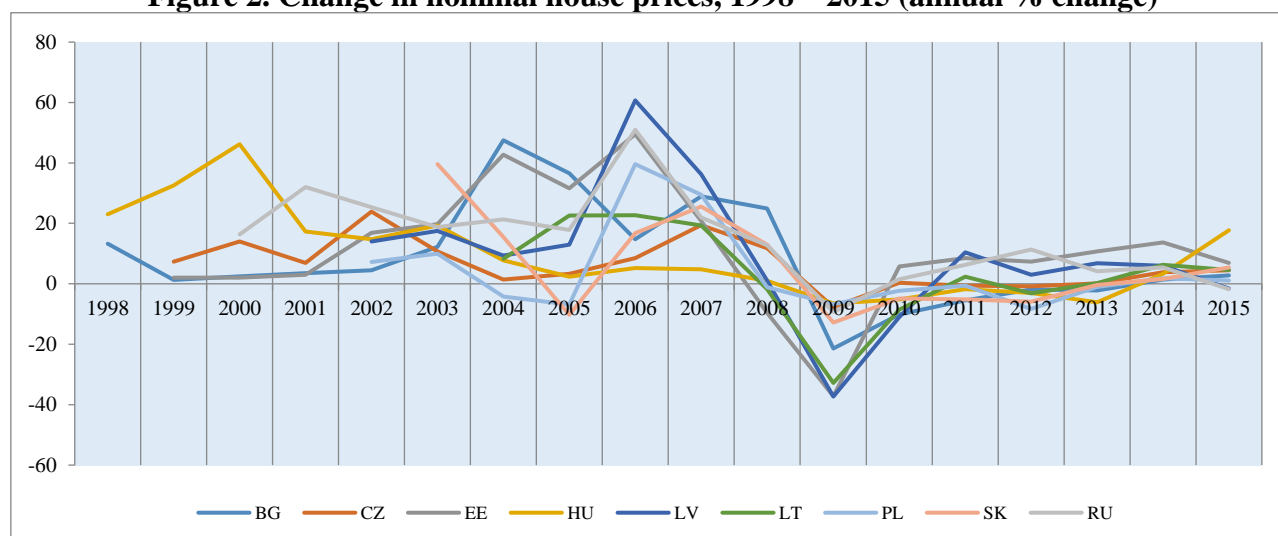
- The price-to-income ratio, calculated by reporting average transaction price to average household income in a given location, recorded extremely high values ranging from 10% to 20%, subsequently becoming an impediment to privatization reform.

With the transition process, the prices established at the administrative level were determined by inflexibility and a continuing imbalance between supply and demand, regardless of production costs. As a result of the disturbances on the official markets, for which no reforms were directed towards flexible prices interventions in adjusting production quantities, the transition economies focused on the formation of grey and black markets. The tolerance of the second economy, the size and its contribution to the revenue of the population varied from one country to another. The lack of consumer goods has led to a change in individual and household behaviour, labour supply and savings. All of these aspects, combined with market imbalance of consumer goods and rising inflation rates, have generated effects in the inside of the markets and on the relationships between them, making it difficult to monitor and manage housing reforms.

4.2. Determinants of residential property prices – the transition specific factor

In the most countries of CEE, the residential property prices were in a continuous increase from the years 2000 up to the outbreak of the economic and financial crisis in 2007 (Figure 2), when have fallen by more than 30%. The increases prices in the preceding years of crisis reflect, to a certain extent, the status of the recovery of post-communist countries. Improving living conditions, economic growth and real wages, combined with residential properties demand and lending diversification have contributed to rising property prices before the crisis (Égert and Mihaljek, 2007).

Demographic factors also influenced property price increases as a result of the new generation born in the 1970s and 1980s, which led to an increase in real estate demand. After the crisis, nominal prices continued to decline, especially in Bulgaria, the Czech Republic, Hungary, Poland, Slovakia, and the first slight increases were registered starting in 2013. The decline was a secondary product of unbalanced macroeconomic evolutions that have affected the conditions of supply and demand on the real estate market (Hildebrandt *et al.*, 2012).

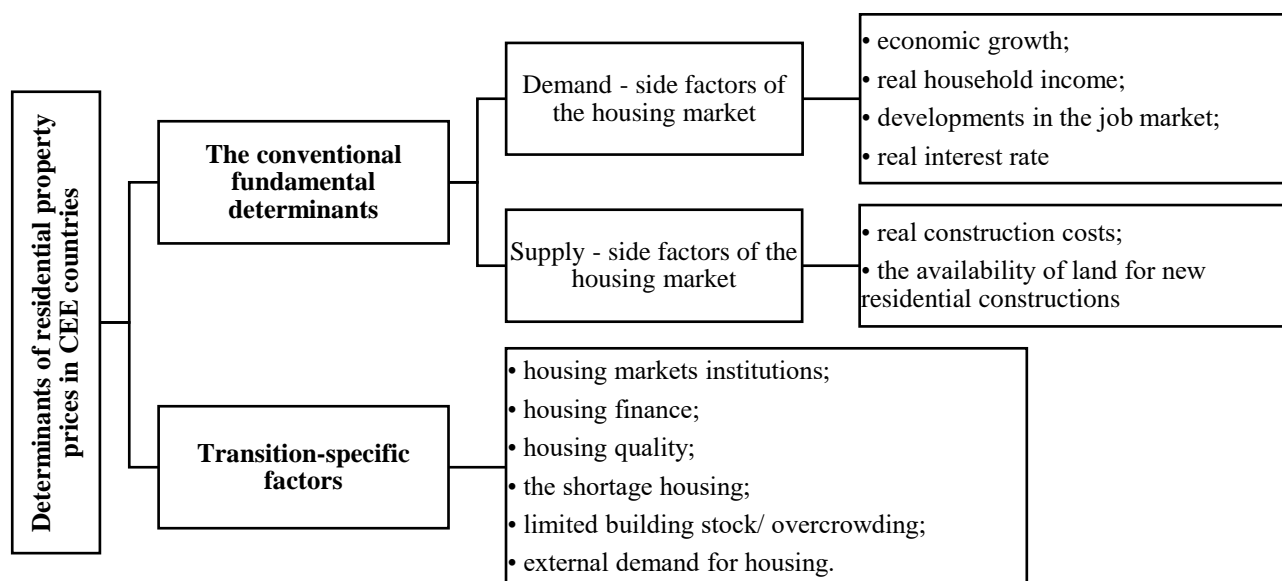
Figure 2. Change in nominal house prices, 1998 – 2015 (annual % change)

Source: EUROSTAT

Housing prices determination takes into account two fundamental theories – one overseeing an adjustment mechanism for bringing demand and supply into equilibrium and the other is based on the finance functions for the arbitration and the adjustment of the prices and rents. In both approaches, interest rates as well as population access to bank loans provide an important link between macroeconomic determinants and housing prices (Muellbauer, 2012). In the case of the CEE countries, it is also important to be taken into account certain transition-specific factors, such as “profound transformation of housing market institutions and housing finance in CEE, improvements in the quality of newly constructed housing, and growing demand for housing in this part of Europe by residents from other parts of Europe” (Égert and Mihaljek, 2007, p. 2). Ciarlone (2015), in addition to these determinants, pays attention to the analysis of emerging property markets and the prices of other types of assets, such as equities.

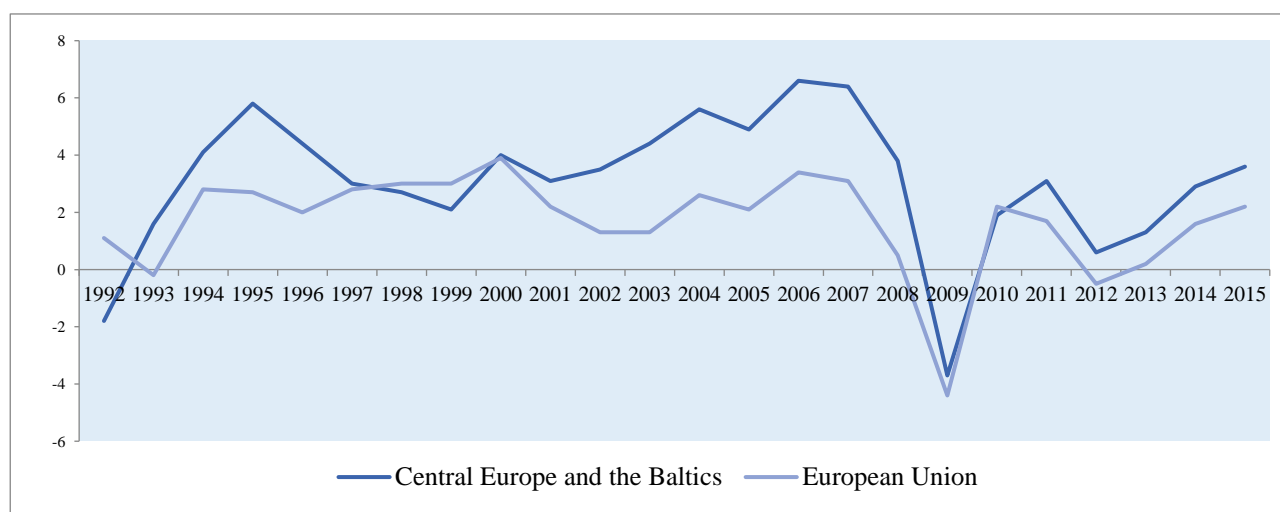
The conventional fundamental determinants are divided in demand and supply – side factors of the housing market (Figure 3). In terms of demand, in the CEE countries, between 1995 and 2005, the residential property prices increased due to the evolution of GDP. The real GDP grew by about 50%, so the post-socialist states recognized a strong development from year to year, more than average growth from UE countries (Figure 4) and during the crisis a sharp decline and then a return after 2010. Several authors indicate that the main influential factor of housing prices is represented by the economic growth (Ciarlone, 2015; Égert and Mihaljek, 2007; Glindro *et al.*, 2008; Huynh-Olesen *et al.*, 2013).

Figure 3. Determinants of residential property prices in CEE countries



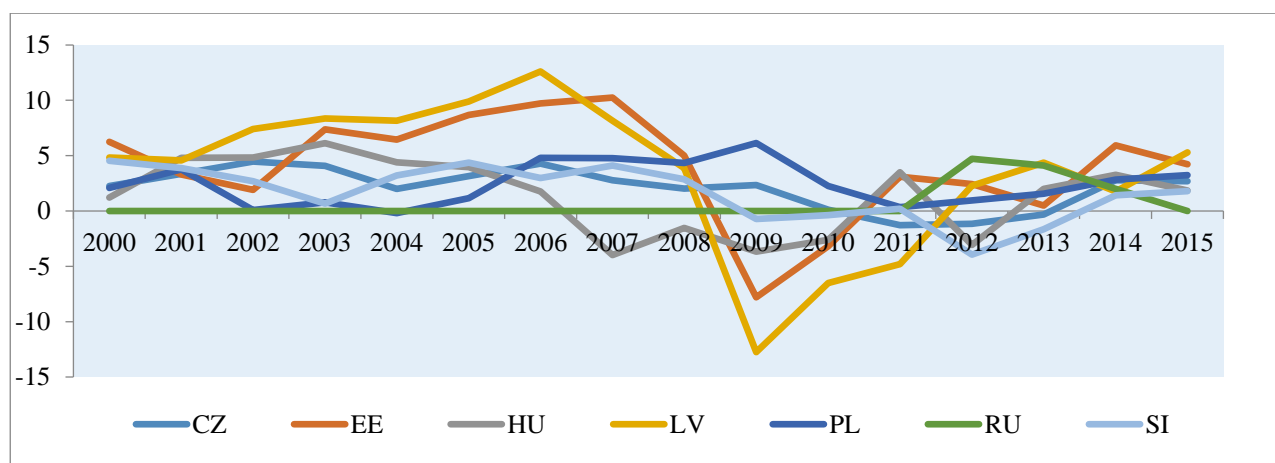
Source: own representation

Figure 4. GDP growth (annual %), based on constant local currency



Source: The World Bank

The increase of household income generated the rising prices for housing, thus encouraging housing demand. Since 2000, CEE household have recorded high income, focusing on expanding consumer spending and savings (Figure 5). The development of the labour market, through a low rate of employment or a high occupancy rate of the population, is expected to generate a positive effect on demand and prices. Nominal interest rates on bank loans granted on long-term basis declined on average from 30% in 1995 to 13% in 2000 and to around 6% in 2005 (Égert and Mihaljek, 2007). This favoured access to bank financing.

Figure 5. Household disposable income, 2000 – 2015 (net, annual growth rate %)

Source: OECD

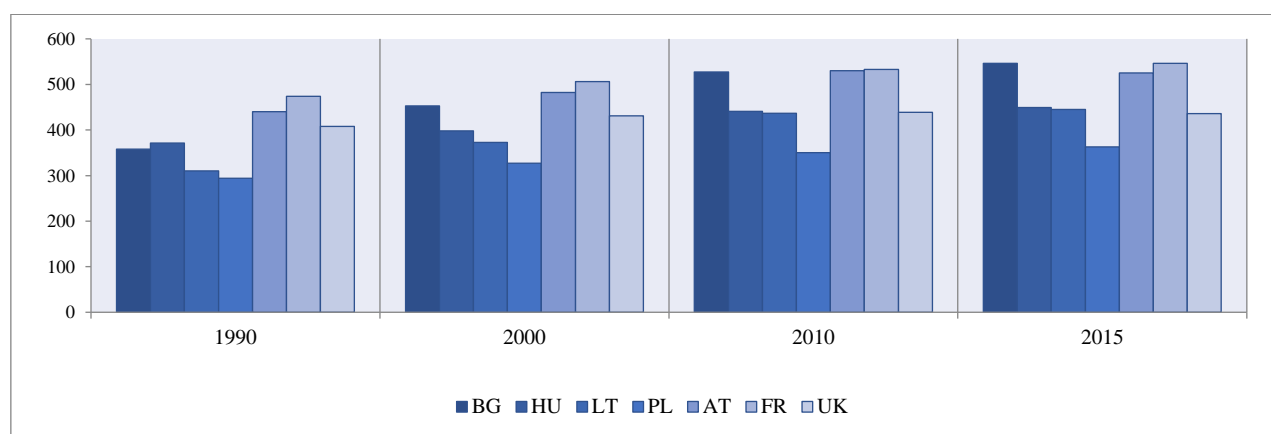
In terms of supply – side factors, increases in construction costs are transferred by real estate developers to buyers, leading to higher prices. The orientation of the post-socialist countries towards the development of the private construction sector resulted in size modification, quality and new types of buildings. Since 2000, there has been a considerable increase in construction costs and number of private of private construction companies (Tsenkova, 2012, p. 208). The availability of building permits is reflected by the level of regulation and institutionalization, and tends to reduce housing prices. However, the expansion of the residential market in 2000-2007 and the availability of construction land have led developers to price increases.

Until the early 2000s, real estate markets regulators in most CEE countries were poorly managed, and housing finance was almost non-existent. The EU integrated process has motivated countries to improve the regulatory and institutional framework necessary for real estate development in line with market principles. The restructuring of the banking sector and foreign investments in local banks, through strategic expertise, stimulated the development of real estate markets and the expansion of housing financing. However, the absorption rate of mortgage loans in CEE countries is much lower than in Western countries, being limited by household income. The development of regulatory and financial institutions correlates positively with rising house prices. Theoretically, in the case of deregulated markets, asset prices tend to increase.

The poor quality of construction during the communist regime is reflected by the reduced number of rooms, the provision of one bathroom and toilet or even the lack of these, the small area inhabited. This phenomenon has fallen steadily since 2005, but compared with average of EU countries, lack of basic amenities is still a problem for CEE countries. The quality and structure of the housing stock are considered as the main indicators for measuring the quality of life and regional development, which is reflected directly in their price. The shortage housing, limited building stock,

overcrowding are specific factors for transition countries. These elements further define the low quality of living space in the former socialist countries. The average overcrowding rate for the EU has increased from 19.5% in 2005 to 17.1% in 2013. The CEE countries have a large share of the total population living in overcrowded dwellings compared to the EU average. The average housing stock in the EU increased in 2015 to 487 apartments per 1.000 inhabitants, Poland having the smallest stock in recent years (Figure 6). Even though the capacity of the construction sector has expanded lately, architectural plans have been inefficiently achieved, causing further problems for localization. The concentration of the population in urban and attractive economic areas leads to regional differentiation, from an economic, social and cultural point of view.

Figure 6. Dwellings per 1.000 inhabitants in CEE and EU selected countries



Source: New OECD Affordable Housing Database

External demand is in form of foreign investments made by large real estate companies in CEE region. Extending the migration phenomenon from the East to Western jobs generates a higher demand for housing by residents.

At the beginning of the transition, housing price misalignment was highly distorted by the initial undershooting, which was not corrected immediately. This caused very low turnover in the real estate market, while the home ownership rate was very high.

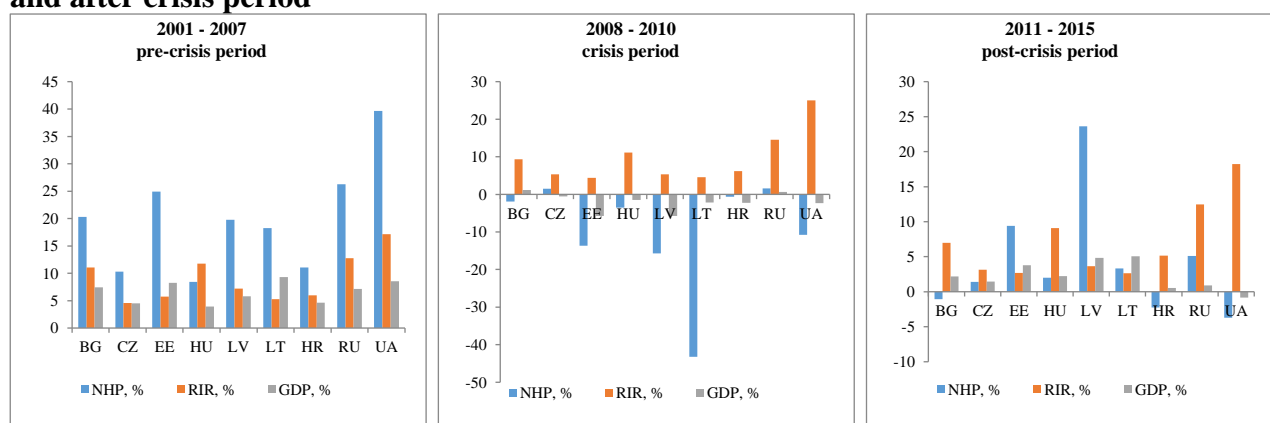
5. Divergences and convergences in housing markets of European transition countries

The specific of the social housing system from Europe refers to the social conflicts which were caused by the urbanization in the 19th century, becoming a determinative factor after the First World War, due to the regulations introduced for the rents administration. The housing sector has developed in accordance with the political and historical traditions of the country. The formation of the European

Union has highlighted the aspects related to convergence and divergence, although housing doesn't represent a definitive objective of the EU (Hegedüs, 2013, p. 3). The post-socialist countries have gone through a radical process of transition, indicating both convergence and divergence, due to the communist ideology that has dominated more decades.

Looking back, the privatization didn't represent a reform for a perspective development, but a way of extending the socialist ideology in the 1990s through the elaborated policies to support the housing stock, which had irrevocable consequences for the purchasing behaviour of the population. Thus, the housing owner has become a "social norm" in the privatization trap, which has contributed to the formation of a homogeneous housing system (Lux and Sunega, 2014). The divergences between transition policies from the planned economy to the market economy have merged into a convergence of all residential systems. The direction of orientation was the same in all post-socialist countries, but the design and the implementation of reforms led to different results, which outline the divergence of reality. As a result, convergence is not the most appropriate definition for the conceptualization of post-communist systems, the differences interfering in the divergent scenario of the future development.

Figure 7. House prices and macroeconomic fundamentals of CEE countries before, during and after crisis period



Source: EMF Hypostat 2003 – 2016; National sources, BIS Residential Property Price database, <http://www.bis.org/statistics/pp.htm>

Note: NHP, % - change in nominal house prices;

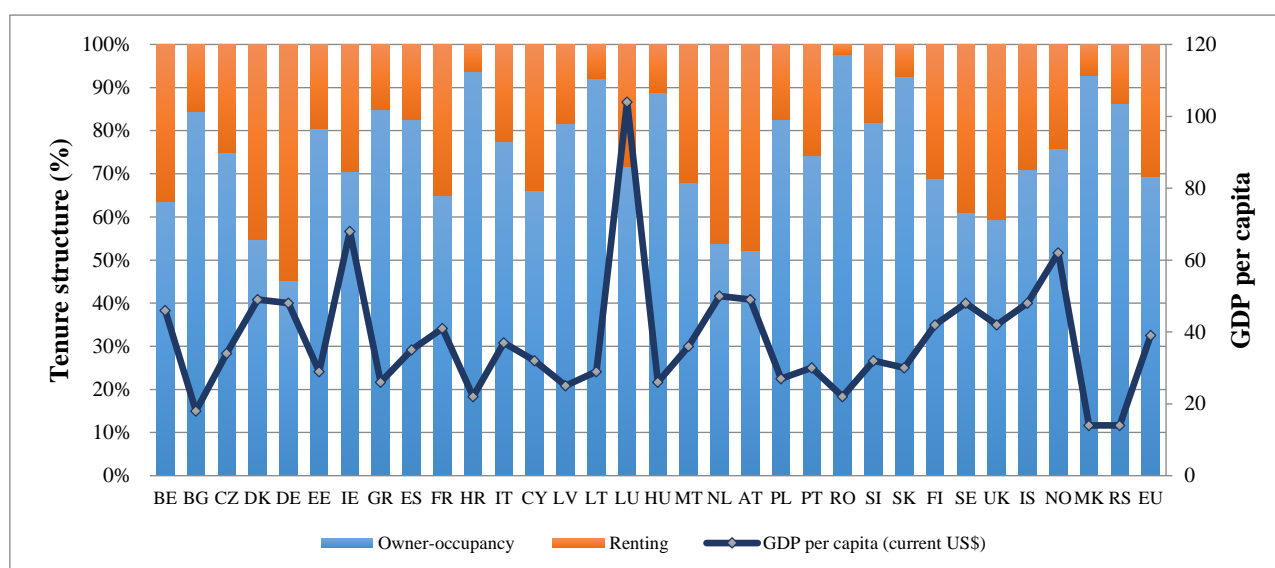
RIR, % - representative interest rates on new residential loans;

GDP, % - GDP per capita growth (annual %).

The specific diversity of the CEE region contributes to the complexity of residential property price developments. Figure 7 shows the housing price evolutions in several CEE countries determined by the influence of GDP and by the representative interest rate for the new residential loans granted, before, during and after the economic and financial crisis. The evolutions of these indicators fluctuate

differently in each of these analysed countries. The fundamental differences related to economic activities, the employment opportunities, the income levels and the demographic structure highlight the divergences that appeared in price fluctuations between urban and rural regions. The policy of the communist regime has provided the relocation of the population in industrialized areas that stimulated urbanization (Palacin and Shelburne, 2005). Decentralization, which has allowed regional authorities to implement different policies, the shortage of transparency in transactions, the poor development of legislation on the planning, registration and execution of real estate contracts - all of which have caused distortions at the price level and have increased the owners' number.

Figure 8. Home ownership in selected European countries, 2015



Source: Eurostat, OECD

The CEE countries are characterized by high rates of occupation of residential property by owners compared to rental rates (Figure 10). The official data provided by Eurostat reflects the fact that the countries with a lower GDP per capita have the largest share of home ownership in all forms of ownership. The main cause, which explains this phenomenon, is due to mass privatization in 1990, which has transferred the public sector housing to the private sector. The implementation of this reform was a way to offset the extremely low wages from the socialist period, but also as an “absorbent for social shocks, improving the high unemployment and lessening the costs supported by the society during the transition period” (Augustyniak *et al.*, 2013). It is important to mention that the percentage of over 90% for the employment rate also contains some misunderstandings, taking into account that there are a large number of people who live unofficially in rented apartments in urban areas with a high economic potential, continuing to be registered as residents in their family homes.

Conclusions

The purpose of this research is to investigate relevant economic aspects, which characterized housing markets from Central and Eastern European (CEE) countries, to identify the factors which determine the house prices and to find the economic implications of property investments, under an internationalized micro and macroeconomic environment. Residential market analysis from CEE countries is performed based on the essential considerations: transition from a planned economy to a market economy through deregulation, privatization and financial stabilization, and participation to the European integration process.

Formation housing markets in post-communist countries was linked with privatization in 1990s, which later significantly increased the home ownership rate, unlike other European countries, which are more oriented towards dwelling rent. In the transition years to the market economy, the high rate of home ownership was determined by state's involvement through the reforms that were adopted, but with the development and integration of these states in the European context, market prices led the residential property system. After privatization, housing prices were below the market, and then economic development has oriented households to higher income for housing acquisition. Recent macroeconomic studies claim that the main source of household wealth is represented by residential property and mortgage loans constitute the main form of leverage. Other researches notice that housing demand is sensitive to population income and to market prices, and that housing offer is elastic in the long run.

After more than 25 years of change of the communist regime, the most CEE emerging countries have not developed and implemented efficient housing fund financing and management systems, as the residential sector has grown as a consequence of the economic transition and not as a natural development of economy. In the restructuring process, the adopted policies such as privatization, decentralization, banking reforms have served as "shock absorbers" for economic shocks and less as strategies for developing an example of a residential system. All these radical state interventions have polarized the region with a set of private property that was determined by low incomes. The image inconsistency transmitted by the mixed society interferes with elements of divergence in all areas of the economic system.

The inherent limitations for a thoroughly study at the level of the CEE countries which are not members of the EU were due to the lack of official data. Housing statistics from post-communist countries are not sufficiently developed to reflect reality, with some insignificant deviations, being necessary a harmonization and normalization of the calculation and registration methodology, at least at European level. The continuity of research into the analysis of residential property price

developments and the diversity of tenure structure through a comparative approach among CEE countries consists in the development of an econometrical model that will empirically support the results and correlations established between the fundamentals. Continuing research of residential property prices and property ownership diversification, through a comparative approach among CEE countries, consists of developing an econometric model that empirically supports the results and correlations established between fundamentals.

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Annex 1

Annex 1 presents, in comparison to the 1990s and 2000s, the structure of home ownership in the CEE countries according to EU.

Table A1. Change of the tenure structure in CEE Countries – EU Members

CEE Countries - UE Members						
	Year	Public rental	Cooperative	Private rental	Owner occupied	Other
Bulgaria	1990	6.6	1.5		91.7	0.2
	2001	3.0		1.9	94.6	0.5
Croatia	1990	24.0		3.5	67.5	5.0
	2001	2.9		10.8	82.9	3.4
Czech Republic	1990	39.1	20.4		40.5	
	2001	29.0	17.4	6.7	46.9	
Estonia	1990	61.0	4.0		35.0	
	2001	5.2			94.8	
Hungary	1990	23.0		3.0	74.0	
	2001	4.0		4.0	91.0	1.0
Latvia	1990	59.0	5.0		36.0	
	2001	16.0	2.0		82.0	
Lithuania	1990	60.8			39.2	
	2001	2.4			94.5	3.1
Poland	1990	31.6	25.4		43.0	
	2001	16.1	28.6		55.3	
Romania	1990	32.7			67.3	
	2001	2.7		1.1	96.2	0.0
Slovakia	1990	27.7	22.1		50.2	
	2001	6.5	15.6	4.1	73.8	
Slovenia	1990	31.0		1.0	68.0	
	2001	3.0		7.0	82.0	8.0

Source: Eurostat; (Hegedüs *et al.*, 2013)

Table A2. Change of the tenure structure in CEE Countries – Non-EU Members

CEE Countries – Non-UE Members						
	Year	Public rental	Co-operative	Private rental	Owner occupied	Other
Albania	1990	35.50			64.50	
	2001	1.00		5.00	94.00	
Armenia	1990	49.00			51.00	
	2001	3.90			96.00	0.10
Belarus	1995	32.10	5.30		62.60	
	2001	19.70	4.70		74.80	0.80
Republic of Moldova	1990	21.00			79.00	
	2001					
Russia	1990	67.00	4.00		26.00	3.00
	2001	29.00			66.00	5.00
Serbia	1990	23.00		3.00	64.00	10.00
	2001	2.60		4.40	81.60	11.40
Ukraine	1990	47.30			52.70	
	2001	20.00			80.00	

Source: Eurostat, (Hegedüs *et al.*, 2013); UNECE; National Statistical Committee of the Republic Belarus, National Bureau of Statistics of the Republic of Moldova

Annex 2. Transition in the housing system in CEE countries

	Socialist system <i>Before the transition</i>		Market-based system <i>During and after the transition</i>
<i>Housing tenure and property rights</i>	<ul style="list-style-type: none"> – property rights withdrawn; – social and public housing dominate urban areas. 	➡	<ul style="list-style-type: none"> – significant increases in home ownership rate of private dwellings after mass privatisation and process of restitution to former owners.
<i>Housing prices and affordability</i>	<ul style="list-style-type: none"> – controlled and uniform prices; – criteria for housing allocation according to the socialist administrative method; – housing shortage effect. 	➡	<ul style="list-style-type: none"> – development of the financing system; – the price explosion due to a poorly developed institutional framework; – the price reflects the location, size, quality and type of dwelling; – adjusting public rents.
<i>Housing quantity and quality</i>	<ul style="list-style-type: none"> – housing conditions are defined by inadequacy, overcrowding and limited access to utilities; – bigger and less crowded housing in rural areas, but total lack of utility facilities, unlike urban areas. 	➡	<ul style="list-style-type: none"> – state policies oriented to development and expansion of peripheral regions of urban areas with an effect on population density; – increase living standards and housing quality.
<i>Production and investment</i>	<ul style="list-style-type: none"> – most urban dwellings are built by state enterprises according to predefined standards; – the level of residential investment as percentage of GDP is very low. 	➡	<ul style="list-style-type: none"> – the presence of private construction companies; – real estate developers and families are directed to residential complex, taking into account the amount of income.
<i>Finance</i>	<ul style="list-style-type: none"> – home loans are granted with low fixed interest rates and on long-term, allocated by state-owned banks, which are not collateral based. 	➡	<ul style="list-style-type: none"> – loans for housing financing are granted by commercial banks; – high interest rates are practiced, which causes declining demand for bank loans.
<i>Subsidies</i>	<ul style="list-style-type: none"> – regulated and uniform subsidies for housing and maintenance; – social rentals did not adjust and did not recover housing costs. 	➡	<ul style="list-style-type: none"> – the subsidies are only granted, under certain conditions, for mortgage loans.
<i>Policies and institutional arrangements</i>	<ul style="list-style-type: none"> – supreme state control, according to centralized planning. 	➡	<ul style="list-style-type: none"> – market oriented reforms.

Source: own representation, adopted by The performance of the East European Housing Model (Hegedüs *et al.*, 1996)

Milestones for the resilience of the cross-border regions

Marcela ŞLUSARCIUC*

Abstract

The specific goal of this research paper is to identify the main possible areas of intervention in the cross-border regions to induce institutional and social changes, policy embodied, for a better support to economic development and increased capacity of averting or recovering the negative effects of external shocks. We initiated a literature review, using mainly as sources, relevant articles, books and other official papers from the resilience field of research in relation with the previous researches we made in the field of cross-border regions. The results of these paper are structured on three areas: firstly, we identified few domains where the cross-border regions could be most affected by shocks, therefore where the resilience capacity needs enforcement, secondly, we figured out few of the specifics of the resilience concepts in relation with the cross-border regions and thirdly, we partly identified the entities/bodies involved in building resilience capacity in the cross-border regions.

Keywords: Cross-border regions, resilience, institutional and social change

Introduction

In the actual European background, the issue of cross-border regions is underlined in the Europe 2020 Territorial Agenda Strategy, where the territorial integration in the functional cross-border areas is one of the priorities. The document includes recommendations to the Member States to consider with a special attention the areas placed at the external borders of European Union (EU) and to pay attention to the needs, in terms of legal provisions, of creating integrated cross-border areas. The before mentioned are more relevant about the fact that the territorial integration and cooperation may create a critical mass for development, reducing the economic, social or environmental fragmentation and creating mutual trust or social capital. Therefore, for the cross-border regions to become functional, it is needed an adequate and coordinated policy approach among the main stakeholders and a strong governance approach doubled by a mutual will of cooperation.

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The present paper is linked to a wider research with main purpose to demonstrate that in the process of the economic growth of the cross-border areas and the resilience acquirement, the good institutional practices and the transaction costs matter. This article will be a part of a larger analyse of state of knowledge in the multidisciplinary fields related to the cross-border regions: institutional economy, institutionalism, cooperation and partnership theories, cross-border cooperation, games theories, resilience, institutional and social change, transaction costs. Therefore, the specific research goal of this paper is to identify the main possible areas of intervention in the cross-border regions to induce institutional and social changes, policy embodied, for a better support to economic development and increased capacity of averting or recovering the negative effects of external shocks. Through this article, we pursue the answer to three questions: firstly, which are the main areas where the cross-border regions could be most affected by shocks, therefore the resilience capacity needs enforcement, secondly, which are the specifics of the resilience concepts in relation with the cross-border regions and thirdly, which are the entities/bodies involved in building resilience capacity in the cross-border regions. Most of the approach and the examples are focused on the cross-border areas between Member States and partner countries where the cross-border cooperation faces more challenges and it is most of the time more difficult.

We initiated a literature review, using mainly as sources, relevant articles, books and other official papers from the resilience field of research in relation with the previous researches we made in the field of cross-border regions.

The result represented by the findings of this article will be a useful input for a section of a multidisciplinary study/report of theories applicable to cross-border regions structured on three main areas: institutional economy and transaction costs, cooperation, partnership and game theories, and resilience and social change.

1. Sensitive areas in the cross-border regions

As part of this research we want to identify sources of instability or crises that can affect cross-border regions and then the countries' borders, pushing to the developed centres and leading to higher gaps between countries regions and/or overload of the developed centres.

In the geographic literature (Popa 2006, 145) it is noticed that the potential for cross-border interactivity is higher in the areas placed immediately near border, where the local communities and the responsible authorities with the status and functioning of the border face specific problems. For

this reason, some countries defined a special border area, with different legal, fiscal, circulation rules than the rest of the country. In these areas, there are rules about the small border traffic that can ease the mobility and some sector activities.

The border stripes, born in the time of nation states and military conflicts, are characterized by marginality (Vergatti, 2006, pp. 85-98) in different areas: economy, transport infrastructure, culture, population density that decreases. These are sources of weakness for most of the border areas, especially if we think at the growing gravity towards the national centres and ideas. In general, the sensitive points that are putting pressure on the borders are rising from different administrative structures and competences, different labour markets, salary levels and social security systems, decrease in security at the borders, the development of the cross-border tourism that has impact on the environment protection, stereotypes or tensions among the communities from both sides of the borders (Slusarciuc, 2015, pp. 801-808).

The economic development and the good cooperation of the communities in the cross-border area may have an important role and place in the cross-border policies, due to the local and national need of security. The cross-border area has potential as international market with strong competitiveness of the capital, goods, labour and services. Each player on the market is focused on finding favourable solutions to its own economic challenges, without carrying any responsibility related to the failure of the other players (Moisescu 2008). This fact undermines somehow the cooperation principles in the area but, as in the prisoner dilemma, if the players on the market understand that, by cooperation each one has more benefits than alone player, there is potential for development at individually and community level.

A decade ago, considering that the cross-border areas have no constitutional competences, they were not involved in the decision-making process about the agreements concerning the cross-border relationships (Moisescu 2008). The states are still the ones to decide the policies and the agreements concerning these areas, based on their own legal rules but, in the frame of the EU Neighbourhood policies developed in the last 25 years, they learned to accept the conditionality of a regional overstate structure linked only to some geographical parts of the countries and to involve more and more regional or local structure in the debates on the rules and conditions of the cross-border development. Still, at least in the Eastern part of the EU and mostly in the partner countries (Ukraine, Republic of Moldova, Belarus), the official involvement in the decisional process of the border communities'

actors is limited to the cross-border programmes and in a superficial manner⁵. In the cross-border areas the communication and the joint social-economic activities are promoted, but each part remains with the own national purpose and the duty of the own state security. The cross-border areas cannot be considered as an inception of the state disappearance but only areas for national state consolidation by economic competitiveness and not by force.

One of the approaches about the cross-border areas is focused on three groups of items: *facts* that are coming from the past and actual environment, *virtues* of these areas that can raise them, and *risks* that can block or change the dynamic of the areas into a negative one (Popa, 2006, pp. 23-34). *The facts* are linked to the cross-border areas are sometimes contradictory in interpretation, since we have areas belonging to different countries with different rules and narratives promoted along time, but most of them are linked by a common history. That led to the formation of minorities groups on the other side of the border and raise of territorial issues as topic of nationals' foreign negotiations. As further consequence at the population level it led to an individual conflict between national identity and citizenship loyalty. The second group of items, *the virtues* of the cross-border areas, is containing the sensitivity of the areas, it is as a barometer for the internal processes and it depends on the permeability of the frontiers. Moreover, the communities on both sides of the border are plural societies with a collective memory and unitary values that can build bridges between the main cultures of the countries involved or between projects with a high coverage. Because there are place where the differences meet, the cross-border areas are highly competitive societies with a good potential of innovation and dynamics. The last group of items, *the risks*, having as much importance as the previous two, is closely linked to the facts and virtues. The differences mentioned above can create not only competitiveness but the not desired face – the rivalries that express in social tensions and conflicts. If these tensions are not well managed they can be transformed into unilateral aggressive practices. Due to generally peripheral location, the cross-border areas can be subject of economical unbalances and of incompatibility of different institutional structures (Popa, 2006, pp. 23-34). These types of tensions may separate the common border region in two separate border communities that belong to different countries, therefore, the minorities issues may raise even national tensions⁶.

In case of Romania we found in literature an approach of the cross-border phenomenon, presented a decade ago from two sides – *holdbacks and obstacles*, on one side, and *openings and*

⁵ As we observed in the process of developing the documents Joint Operational Programmes for 2007-2013 and 2014-2020 between Romania and Ukraine and Republic of Moldova – www.ro-ua-md.net, where there was consultation on the paper but not an in-depth one.

⁶ See the case of Slovakian versus Hungarian countries in terms of minorities.

opportunities, on the other side (Popa, 2006, pp. 157-166). The first ones, *holdbacks and obstacles* are caused by the quite young formation of the Romanian national state, compared with other old countries in Europe, and by the imprints that the decades of the communist regime in Romania, before 1989, marked the state and the communities. At a legal level, there was a lack of norms in case of Euroregions, norms that would encourage the development of relations in these areas and, also, a better ruling about cross-border cooperation. At institutional level the obstacles are caused by different administrative levels and competencies or responsibilities, the lack of specialized structures inside the administrations in the field of cooperation, the lack of local resources in partner regions that should be counted in a common budget of the cross-border area. Most of these obstacles are still present but also there are increasing efforts to overcome them. The social-economic level was blocked by the disparities between the economic development rhythms, the lack of direct cross-border relations between the social-economic actors, weak trade relations, difficulties in crossing the border. Nowadays, some of them are constantly improving, such as trade relations or border crossing, much of the impulse given by the European Union interest in the areas. At a cultural level a barrier is the language differences, somehow diluted by the new multi-linguistic wave that allows the usage of English, French, German, so on. As far as the *opportunities*, some of them are related to the specific multi-culturally frame from the border areas and to a kind of competition between cultures. The need of protection of national minorities is also an opportunity to increase the cooperation in the cross-border areas. From the economic point of view a good premise is the economic complementarity of most areas from the border that generates organized relations and flows due to the potential differences in economic branches. Another helpful factor is the need to improve and develop new communication infrastructures in the cross-border areas, that means to open new crossing points, to organize efficient transport networks or the logistic for the border control, so on. A factor that gives potential for cooperation and development is the need to solve the existing common problems with cross-border impact that can be tackled only with common efforts (phenomena with high risk – floods, control and reduction of pollution, illicit traffic, illegal migration, terrorism, so on). A last stimulating factor is the actual European policy frame that encourages the cross-border cooperation through the programmes, both between member states and between EU and neighbours.

In a previous research concerning cross-border cooperation and cross-border areas, based on literature and field research, we identified threats or areas of vulnerability in cross-border areas and cross-border cooperation structured on three main fields: arisen from the general cross-border status, economic issues and arisen from EU frame (Slusarciuc, 2013, pp. 195-204). An updated listing of

areas, some of them already mentioned above, is available in the Table 1 (appendix). The vulnerabilities generated by the cross-border status of the area, as we detailed above, are generally linked to the systemic and rules differences, possible tensions and stereotypes animated by the historical background and different promoted narratives, and to the permeability of the frontier in terms of border crossing rules. From the economic point of view, the main sensitive areas may be generated by the development gaps, the lack of communication channels or the lack of instruments/rules that should activate the economic relations. If we consider the European Union frame, the vulnerabilities are given by the actual political and geopolitical instability inside and outside the Union.

As mentioned above we notice some of the main areas where the cross-border regions manifest weaknesses, vulnerabilities or confront threats, therefore we may use this information to map a primary image on the aspects where there is need of intervention, in condition that stakeholders involved search for resilience capacity building.

2. The specificities of the resilience concepts in relation with the cross-border regions

In this we make a first and soft review of scientific literature about resilience to find hints and to set up our further research. We focus on few topics about resilience that may be more relevant for cross-border areas and help us to structure an intervention for resilience capacity building that needs shorter time to be applied.

Beyond the increasing number of papers targeting the resilience topic, mainly the economic regional resilience, it seems that by now still there is not a common understanding of the resilience concept due to the complexity of the notions and due to the factors implied - regional growth in the global era, external threats and disturbances difficult to be controlled by policies and measures, the region attributes or the main determinants that make a region more resilient than other (Eraydin 2016, 602).

A first approach we consider is the one of Martin R., who, in a 2012 paper, propose some ways for description on how a regional economy responds to shock. He is defining four different and interrelated dimensions for resilience: *resistance* (vulnerability/ sensitivity of a region to disturbances), speed and extent of *recovery* from the recession, structural *reorientation* – if case – and the implication on jobs, outputs and income in the region, and *renewal* degree the region passes following the shock on the growth path he considers that the resistance, response or recovery of a

region is shaped by the regional economic structure, the competitiveness and innovative propensity of the companies in the region, the relational network among the companies from the region and other producers/customers in other regions/countries, the workforce skills in the area, the entrepreneurial culture and the institutional forms, the attitudes of the stakeholders, the resources available, the measures available to any local policy bodies - such as regional or local development agencies and not the least the region's economic governance rules. Moreover, he suggests that there is a link between the concept of resilience and the one of hysteresis, judged as the impact of shocks on an economy's growth path. (Martin, 2012, p. 11). We consider the inclusion of the idea of hysteresis a useful one for our research because it focuses less on the preservation of a regional system in terms of functioning and performance in the presence of exogenous change/ disturbances, and mostly on how the mentioned changes/disturbances can change the regional system functioning and performance, with interest on the negative or positive effects of the change on the nature and outcome (Martin, 2012, p. 27). We may link the approach with one of our previous researches on cross-border areas that take in consideration the hysteresis as part of an incipient model describing them (Slusarciuc 2014, 29).

In a later paper where was Martin R. involved, also in the acceptance of the recession as a shock for regional economies, he puts the resilience capacity in relation with: regional economic structure, resources, capabilities, competences, business cultures, confidences and expectations, local and national institutions, nature and extent of supportive policies and measures (Martin, Sunley și Gardiner, și alții 2016, 565). In a study on UK regions on the last 40 years, the researchers mentioned a complex set of factors that are determining the resilience of regional and local economies, shaping the vulnerability and the resistance to shocks, the adaptability and the recoverability. They group these determinants in five interdependent areas: industrial and business structure (diversity versus specialization, market orientation, supply chains, companies size and ownership, entrepreneurship, innovativeness, debt structure and financial strength), financial arrangements (national financial environment – interest rate, loan condition and attitudes of national and local financial institutions, equity market conditions, alternative sources of finance as loans and equities, local state support), labour market conditions (skill profile of labour force, gender profile – we add, occupational flexibility of workers, wage and hours flexibility, alternative job opportunities, mobility, attachment to labour markets and *age profile* we would add), governance arrangements (national government economic policies and support measures, local government economic policies and strategies, non-state business and labour market support institutions, international regulatory arrangements) and

agency and decision-making (perceptions, expectations, confidence, initiative, conventions) (Martin, Sunley şi Gardiner, şi alţii 2016, 570). We may consider these determinants as a start for benchmarking in a data collection endeavour for some specific regions. The collected information that may indicate useful hints to design possible paths in resilience capacity building. In the same step, we should include a more extended exploration of the resilience concept was proposed by Martin and Sunley in consideration of the conceptualizing and measuring the notion of regional economic resilience and figuring out its determinants or the links to the patterns of long-term regional growth (Martin şi Sunley 2015). In relation with the above, another approach we consider is the one of two authors (Bailey şi Berkeley 2014, 1810) that examined the regional response to recession from the institutional and policy point of views in a policy debate paper and they conclude that in some cases the *resistance* and *recovery* dimensions of the resilience are less relevant and the *reorientation* and *renewal* dimensions are contributing more to the resilience capacity.

A research on measuring regional economic resilience after 2008/2009 crisis across Europe, based on two series of data considered relevant – the level of employment in the regions and the Gross Domestic Product (GDP) – revealed that the regions in Europe were affected at different times, in terms of start and end and there are possible indications that not necessarily a strong economy is resilient (Sensier, Bristow şi Healy 2016, 134). In the endeavour of operationalising the resilient concept the authors highlight the complexity and multi-dimensionality of it, therefore the difficulty to be measured by one simple indicator or composite index alone (Sensier, Bristow şi Healy 2016, p.145). A lesson learned in developing a regional capacity for an efficient anticipation and response to crises is related to the replacement in 2012 of the Regional Development Agencies in Great Britain with Local Enterprise Partnerships that operate at sub-regional scale. Researches consider that this action helped to create a permanent capacity to deal with shocks as far as the earlier creation of a taskforce for the region, aiming regional business and employment issues that included government officials, regional agencies, local authorities and trade unions, gathered around a set number of key objectives (Bailey & Berkeley, 2014, pp. 1803-1804). Also, they consider few policy learnings in terms of leadership, strategy, focused short term support, relationships with stakeholders and good communication with government institutions. The process of data, intelligence collection and the analysis of these helped the taskforce in preparing a strategic frame based on key locations, sectors and enterprises. Moreover, the earlier inclusion of the business representatives in the taskforce was a policy learning in terms of a better relationship with the regional policy stakeholders. Their

conclusions are relevant as ideas of actions to be considered in the design of a resilience capacity building process.

If we want to consider the employment in relation with the resilience capacity of the urban areas it seems that a key determinant of the recession impact is the skills of the human resource in the cities, meaning that the cities with a higher level of employers' skills had a better recovery than the ones with lower level, fact that confirms the role of human capital in the economic growth and more, in the economic resilience (Lee 2014, 1775). The approach of employment needs more exploration from our side and identification of more literature sources.

We also found studies from different areas focused on economic resilience (Australia, Turkey, Canada) or papers that analyse the resilience in connection with the research & development (Sandu 2016), with vulnerability (Zaman și Vasile 2014), (Briguglio, și alții 2008) or territorial capital (Cojanu și Petre 2017) and books on resilience patterns and practical approaches (Zolli și Healy 2012) that will be considered in a more in depth analyse of the main milestones that we may use in the further research.

In the cross-border regions specific interest, we should take into account that one of the thematic objectives of the European Neighbourhood Instrument is environmental linked and some of the cross-border areas made a choice for this objective - *Environmental protection, and climate change mitigation and adaptation*, due to the importance of environmental issues (for example, on land-borders in relation to trans-boundary waters - river basins, including groundwater, and lakes, also, transboundary air pollution and waste management, or shared protected areas) (European Commission - EUROPEAID; European External Action Service 2014, 25). Therefore, we consider as interest the definition that United Nations Secretariat for Implementing the International Strategy for Disaster Reduction gives to resilience: "The ability of a system, community or society exposed to hazards to resist, absorb, accommodate, adapt to, transform and recover from the effects of a hazard in a timely and efficient manner, including through the preservation and restoration of its essential basic structures and functions through risk management." (UNISDR 2007). Starting from this definition an author approaches the resilience as a system attribute, considering also that a system is including many other systems, that is characterized by three sequential properties: resistance (primary ability to resist and stand firm in front of shocks and hazards), redundancy (the redundant parts in case of failing critical elements of the system) and contingency (an emergency plan for the case of failing significant portions of the system). The first two are called *resilience capacity*, performing 99,9% of time, and the third *emergency capacity*, that signs already a failure if called in the action

(Papadopoulos 2016, 11). The approach he proposes may be considered for the cross-border regions if we think of the projects or strategies linked to the objective abovementioned and the network of stakeholders as subsequent systems.

In building resilient cross-border regions one important aspect is the good partnership network and governance. In this respect, we identified a book that proposes the *infused resilience* as vision for local leaders in the path of transforming the unsustainable societies, promoting resource effective interventions, by elimination of dependency culture in a socially and environmentally progressive way and by unifying people around a common purpose (Monaghan, 2012). The ideas included are based on values, responsibility, rights and sanctions as institutions in the meaning of good practices and rules that are setting the grounds of a developing cross-border region.

Still, in a positive approach, Nassim Taleb considers that some things have benefits following shocks, prospering and growing when exposed to volatility, hazard, disorder or stress factors, also loving adventure, risk and uncertainty (Taleb 2014, 15). He promotes the concept of *antifragile* as more than resistance or robustness, a property that allows to defeat the unknown in a good manner, based on hazard and uncertainty. The path indicated by Taleb worth to be explored in relation with resilience generally and with building a possible evolution way for cross-border areas.

The resumed inquiry above help us to set up our further research on few focused topics about resilience that may be more relevant for cross-border areas in terms of a shorter time possibility of intervention for resilience capacity building.

3. Entities/bodies involved in building resilience capacity in the cross-border regions

The cross-border cooperation, depending on the specific of the relation between the neighbouring countries, could bring benefits for economic development for each participant region/country. The motivation is based on the necessity of life standard improvement, for a sustainable and harmonious framework and on the clearance/softening of frontier barriers or other restrictions. To improve the social-economical positions of the border communities and to reduce or to clear the negative effects of the border obstacles, the local communities are getting more and more involved in the regional collaboration. In some cases, regional associations were built on both sides of the borders, respecting the international law system, most of them known as Euregions. The low involvement of the communities in the negotiation of the main decisions concerning the cross-border cooperation and regions, as stated in a section above, is one of the causes for failure of the regional

associations as Euroregions, that are mostly network structures, without real decisional power or financial capacity. In one of the our previous researches we identified and listed some of the weaknesses of the general institutional frame from the cross-border areas between Member States and Partner Countries, part of them are presented below.

In the last decades, the frame of the European Neighbourhood Policy and its instruments - the cross-border joint operational programmes, the cooperation on the border areas was encouraged, therefore, with the incentive of the financing projects addressing the needs in the regions, the institutions (as entities) in the area started to cooperate and to make joint activities, building partnerships or long-term relations. Besides these, the mandatory institutional structures of the programmes offered a continuous frame and a minimal stability of cooperation frame. We mention the main structures as included in the joint operational programmes for the 2007-2013 programming period and in the joint operational programmes for the 2014-2020 programming period (European Commission 2014):

- *The Joint Monitoring Committee (JMC)* - the joint committee responsible for monitoring the implementation of the programme, composed of one/more representatives appointed by each participating country. Representatives are appointed on a functional basis, EU recommendation is to ensure in the implementation of the programme suitable participation of all actors concerned and local stakeholders, including civil society organisations and local authorities.
- *The Managing Authority (MA)* - the authority or body appointed by the participating countries as responsible for managing the programme in accordance with the principle of sound financial management, to ensure that decisions of JMC comply with the applicable law/provisions.
- *The Joint Technical Secretariat (JTS)* - assisting the Managing Authority, JMC and, where relevant, the other programme bodies, in carrying out their respective functions. Therefore, it keeps a close relationship with the potential beneficiaries informing them about funding opportunities under programmes and assists grant beneficiaries in the project implementation. The JTS, following a decision of the participating countries, branch offices may be set up in the participating countries.
- *The National Authority (NA)* - the entity appointed by each participating country bearing the ultimate responsibility for supporting the Managing Authority in the implementation of the programme on its own territory, therefore being responsible for the set up and effective functioning of management and control systems at national level.

We notice that there are specific bodies for the cross-border cooperation, part of them including local or regional authorities. In one previous research (Slusarciuc 2013, 195-204), focused on the funding programmes at the Eastern border of EU, we identified and listed strengths and weaknesses of the joint operational programmes systems, part of them, relevant and updated for the present paper, being presented in the Table 2 (in Appendix). The weaknesses identified at the level of institutions and bodies involved in the programme structure are mostly related to the distribution of tasks, involvement of the actors or the rules of the system. On the potential beneficiaries, as actors in the area, there are weaknesses about their capacity (financial, operational, experience, knowledge of project management) or communication abilities.

Therefore, in the section we pointed the main entities/bodies that may be involved in building the resilience capacity of a cross-border region as core structures, marking some of the weaknesses that maybe need to be fixed during a change of perspective and social frame and the strengths that may be a base in this process.

4. Opportunities and positive issues for building resilience in the cross-border regions

Besides the weaknesses and the sensitive aspects that mark the cross-border areas we identified in previous researches (Slusarciuc 2013) and updated, the opportunities or the aspects that bring potential for building resilience capacities in the cross-border regions.

One of the positive sides for most of the cross-border communities, arisen from the *cross-border status*, is that there are linked by a common history. Moreover, the communities on both sides of the border are plural societies with a collective memory and unitary values that can build bridges between the main cultures of the countries involved or between projects with a high coverage. Because the cross-border areas are subject of differences, there are highly competitive societies with a good degree of innovation and dynamic. A second positive side is given by the specific multiculturalism from the border areas and a kind of competition between cultures, and most of the times, the protection of national minorities. This aspect should bring more tolerance in these communities and room for dialogue and creativity. We may also add the opportunity of preserving and promoting common historical heritage and natural treasures of extremely high value at regional, national and international levels. Thirdly, the existence of common problems with cross-border impact, the negative externalities that can be solved only with common efforts (phenomena with high risk –

floods, control and reduction of pollution, illicit traffic, illegal migration, terrorism, so on) opens the path for communication and cooperation on long term basis.

Another field of opportunities is given by the *economic* sides of the cross-border regions. A good premise is the economic complementarity of the areas from the border that generates organized relations and flows due to the potential differences. The globalization process can shift the role of border areas from peripheries of economic activity to attractors of new industries or of expansion of existing ones, leading to economic development of the region. The economy of scale, building the infrastructure by the parties is a benefit for the whole region making easier the access and communication inside the region and with the external areas. The transaction costs can bring the joint efforts to share information regarding market conditions, legal constraints, common business practices, language and culture of the partner country.

During the last decade, there was a good European support for inclusive economic development – so that EU neighbours can trade, invest and grow in a sustainable way, reducing social and regional inequalities, creating jobs for their workers and higher standards of living for their people. The EU gives importance to the relation with the neighbour countries and, shows the need to reduce the economic disparities between the areas situated on the both sides of the border – the internal and external ones. The new, deeper contractual relations between the EU and partner countries in the form of Association Agreements, including, where appropriate, Deep and Comprehensive Free Trade Areas (DCFTAs), is a strong legal and formal frame for important economic exchanges and development. The costs and benefits of the EU-Ukraine or EU-Republic of Moldova Deep and Comprehensive Free Trade Agreement have been calculated and are publicly discussed. Proximity to EU markets and the future potential partly participation of the ENP countries to the EU internal market that is containing the four freedoms: free movements of goods, services, labour and capital, may increase the economic attractiveness of external neighbouring areas and create new opportunities for them. Increases on the movement of capital, trying to facilitate the possibilities for investments for companies from Members States in the partner countries, lead to actions that can bring economic development in these countries. The tendency to move more the ‘location’ of some economic activities to the peripheries where some production factors are cheaper may contribute to the economic activity increase in the cross-border areas. Even if the political situation in both countries is still unstable, the provisions of the agreements are step by step progressively implemented. One of the most recent steps is the visa liberalization for Ukrainian citizens on the EU territory.

Moreover, the implementation of financial cooperation instruments, that aimed firstly the promotion of a sustainable economic and social development in the border areas, fostered the promotion of many projects that increased the capacity of economic actors to cooperate and have joint activities. Also, the need for improving and developing new communication infrastructures in the cross-border areas, meaning new crossing points, transport, the logistic for the border control, so on, is a good base for strong projects that may involve many actors in the area. On the other side, the opportunity offered by previous project for expanding rural tourism in regions particularly rich and competitively advantaged for long-term development in this sector, provided that biological equilibrium will be protected in the short and long term. Other projects opened the opportunity of supporting growth of an interesting SME backbone specialized in economic sectors and having good cooperation scope for local development with an integrated perspective, where the development of existing human resources operating or to be operating in competitive sectors is possible. By now, considering that in the cross-border area is a lack of innovation and research supporting development of new production, the companies allocated small amounts of money for research and development, the research infrastructure is outdated and the links between industry and research units are weak. As future perspective, it appears there is a development opportunity in the area for future projects focused on the research & development and innovation.

Overall, one of the most important source of opportunities for the cross-border cooperation that may help in building resilience of the regions along the borders is *the EU frame* that encourages through financial instrument, both inside EU and with the neighbours. Moreover, the existence of the European Neighbourhood Policy, built firstly on economic area, and the quick update of the policy in a dynamic frame of neighbours, gives the confidence that the neighbourhood issue is at the same level of importance as other European policies. The experiences gained since the launch in 2004 led to a two-dimensional approach of the ENP – one being the Eastern Partnership and the two approaches in the relationship between EU and the Partner Countries – multilateral and bilateral. Within the framework of the Eastern Partnership, is a potential the extension of EU networks like transport, telecommunication, energy, environment protection, to those countries. As previously mentioned, the agreed visa liberalization and the encouragement of the mobility for citizens and goods help to build new partnerships or to strengthen new ones, therefore, the enhancement of the sector cooperation and facilitation for the participation of partner countries in EU programmes. The renewed European Neighbourhood Policy promotes the “more for more” principle that means, the more a partner country makes progress, the more support it will receive from the EU, including increased funding for social

and economic development, larger programmes for comprehensive institution building, greater access for partner countries to the internal market, increased financing towards investments, European Investment Bank loans as well as EU budget grants blended with loans from European Investment Bank and other investment financial instruments. There is relevant to be mentioned that ENP is not the only instrument – but it can benefit from the synergy of the other financial instruments used in the relation between EU and the Partner Countries. Still, the most important opportunity or gain of the EU frame is the promotion of partnership, subsidiarity, the existence of a common cross-border development concept or programme, joint structures on regional/local level and independent sources of financing.

In the same research that identified the weaknesses we found that the system of the entities/bodies involved in the cross-border programmes has strengths (few of them may be found on Table 2 – Appendix). The existence of the structure of bodies is by itself a good start for building a resilience capacity in the area. The years of working in the frame helped for adjusting the relation and cooperation between the bodies from the participant countries. Nevertheless, the existence of national associations from both parts of the border reunited, forming cross-border associations, most of them being constituted in Euroregions structures, the improvements of the legal background in the Partner Countries and willingness to respect the EU criteria and requests are bases to start and build capacities to have more resilient cross-border areas.

Conclusions

By the literature identified and the previous researches resumed we identified some of the main possible areas of intervention in the cross-border regions to induce institutional and social changes, policy embodied, for a better support to economic development and increased capacity of averting or recovering the negative effects of external shocks. In our endeavour for a closer look at the sensitive areas of cross-border regions, the specificities of the resilience concept in relation with the cross-border regions, the listing of some entities/bodies involved and the opportunities or positive issue useful for building the resilience capacities in cross-border areas, we have some remarks, new research questions or steps that we should do in the frame of our larger research interest.

Firstly, we think that an inventory of potential threats, risks or shocks that a cross-border area could face (generally or a specific area) should be made, with the distinction of the ones that are met to any type of region and the ones that are caused only by the cross-border character.

Peripheral status of the cross-border regions from territorial perspective is almost a given fact but what where there are potential resources there can be a starting point for development both through the national intervention and joint actions. Where the national level offers low autonomy for regions or administrative units, it should be a pressure and strong arguments for an increase of the autonomy. Usually, for the Member States there is not the case but when we think of the neighbouring countries still there is room for improvement. Even here, in cases of Ukraine and Republic of Moldova, through the Association Agreements there is the joint effort to build democratic systems with closer approach to the one of the European Union. The subsidiarity principle, that is one of basics that the EU Treaty states, is one that promotes autonomy increase and it is promoted through projects and documents that link EU Member States with the neighbouring countries.

The good practices of joint work of the entities from the cross-border areas, where exists, could be collected and promoted in the areas where there is need for improvement. In terms of institutional systems matching (rules and laws, practices, etc.) between the neighbouring countries, an inventory of institutions involved and the ways they can affect the cross-border cooperation may show where there are common points, where the differences in institutions do not affect the cross-border cooperation and where there is possible to have common efforts to harmonize the rules and practices. Also, there are some questions we raise for further search: could be identified specific institutions for the cross-border cooperation? Are the cross-border cooperation or the cross-border partnership institutions by themselves? If not, could the cross-border cooperation or the cross-border partnership be institutionalized? Would it help to institutionalize these ones for developing the resilience capacity in the cross-border regions? We think that a more in depth knowledge and analysis of the institutions from the cross-border areas are needed to answer to the questions and to enrich the scientific ground of designing resilience capacity of these special type of regions. Moreover, because the frame of cross-border programmes supposes the specific entities/bodies structure that addresses to a larger area around one or more borders (if the approach is generally for EU and/or neighbours), we should consider a shift of focus to smaller cross-border regions that include a lower number of territorial units from the border sides and to think resilience capacity building outside of any specific programme but for the cross-border region itself as joint community with needs and aim for joint development. Besides, as we noted in other previous papers, there is the legal frame for the Member States to constitute the European Grouping Territorial Structures, therefore the institutional background and maybe the already constituted EGTS experience may be useful for a translation and adaptation for the cross-border regions at the EU borders with the neighbouring countries.

If we consider the cultural differences and the hysteresis effects mentioned above, in consideration of the community importance, the historical and narrative background, perhaps a comparative intercultural approach on the cultural dimensions (Hofstede), would offer valuable hints for designing resilience capacity on a specific cross-border area. Additionally, we should consider at least two more cultural related approaches – to explore more the role of the minorities, the paths, moments and modalities of involving them, and the multicultural aspects from some cross-border areas – as tolerance environment where the dialogue may be easier for building good communication and cooperation, therefore potential for resilience capacity. Nevertheless, the social capital that in smaller communities is likely to be increased should be assessed and included as resource.

Regardless any of the multidisciplinary fields involved in the research of the cross-border regions resilience capacity, we think that the key hints are: the permanent items (long term unchanged), items that can be changed local/national and items that cannot be changed (or the needed effort is too much compared with the results), differences and gaps that can be used, changed or accepted as it is, and channels to build communication and partnership. Also, the groups of determinants Martin R. proposed should be one of the dimensions for a benchmarking when discuss about a specific case of cross-border region with the possible extension given with other determinants generated by the cross-border specificity. Moreover, we consider that a joint data base is essential for starting any design of resilience capacity building.

The study of cross-border regions is a field of knowledge where it can be build a frame of cooperation and development on scientific and structured base with aim of long term resilience, where theoretical findings and empirical facts from different research domains are valuable inputs.

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Appendix

Table 1. Threats and areas of vulnerability in cross-border areas

<i>Arisen from the general cross-border status</i>
<ul style="list-style-type: none"> - The cross-border areas have no constitutional competences, meaning that they cannot decide the agreements in cross-border relationships. The states are the ones to decide the policies and the agreements, based on their own legal rules and they accept the conditionality of a regional overstate structure linked only to some geographical parts of the countries only within some limits. - There are areas belonging to different countries with different rules. - The rivalries can express in social tensions and conflicts. - There may be difficulties in crossing the border. - A barrier is the language differences, somehow diluted by the new multi-linguistic wave that allow the usage of English, French, German, so on. - The cross-border areas are marked by marginality in different fields: economy, transport infrastructure, culture, population density decrease. The sensitive points that are putting pressure on the borders are coming from differences on important areas, mainly in the case of borders between Member States and partner countries, but inside EU also, as follows: administrative structures and competences, fiscal and social legislation, spatial planning and legislation, environment and waste legislation, transport systems and level of development, decrease in security at the borders, mostly inside EU borders, the development of the cross-border tourism that has impact on the environment protection, - Could be stereotypes or tensions among the communities from the both sides of the borders.
<i>Economic issues</i>
<ul style="list-style-type: none"> - Being peripheries, the cross-border areas can be subject of economical unbalances and of incompatibility of different institutional structures. - There are disparities between the economic development rhythms; - There is lack of direct cross-border relations between the social-economic actors or there are relations but the still weak relations; - The trade relations in some areas are still not enough developed; - The marginality is sensed in economy field also, the sensitive points that are putting pressure on the borders from economic point of view are linked with: <ul style="list-style-type: none"> • difficulties in cooperation between SMEs in the lack of cross-border suppliers and sales markets, • different exchange currency rates and significant differences in the exchange rate fluctuation, • different labour markets, salary levels and social security systems. - A factor that can affect trade and economic activities is the Schengen Treaty provisions that imply the respect of strict rules for the signatory states concerning the border inspection and control for goods and people. In this second case, no matter the economic potential of the cross-border region and the will for collaboration, the border ruling will be a brake, though a necessary one.
<i>Arisen from EU frame</i>
<ul style="list-style-type: none"> - In case of partner countries as Ukraine or Republic of Moldova there are poor membership perspectives for EU. Still, the Association Agreements are softening the cooperation and make easier the cross-border relations between Member States and partners countries; - In the light of the last years of economic and political instability, the EU itself is fragmented, the crisis effects lead to the reshaping of the internal political structure of the EU and the economic policy; - The international relationships between the main poles, United States, EU and Russia are unstable and influence in terms of stability the area of Ukraine and Republic of Moldova, both targets in the same time for the two of the poles, Russia and EU, politically and economics. - It is a decrease of the permeability at the internal borders of European and at the external borders. This aspect has at cause mainly the Schengen regime implementation, under the pressure of the migration phenomenon caused by the military conflicts in the Southern Mediterranean area.

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- Countries that have borders as external border of EU have the role of gatekeepers in what concerns some issues such as underground economy, cross-border criminality, human trafficking or other illegal operations but respecting the rules that the EU membership supposes.
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Source: Own researches

Table 2. Strengths and weaknesses of the joint operational programmes systems

Strengths
<i>Institutional level</i>
<ul style="list-style-type: none"> - The existence of vertical and horizontal structure pillars from institutional point of view – vertical: local (local administrations, nongovernmental organizations, other institutions), regional (regional development agencies, regional administrations), national (JMA, National Authorities) and horizontal (JMC, JTSs with Branch Offices, Euroregions), gives a good base for building strong institutional networks. - The Branch Offices have a good role in helping with the promotion of the programme and other information and promotion tasks during the implementation. It is a soft interface between the JTS and beneficiaries from Partner Countries. - Many decisions are taken by written procedure, both on the JMC level and even at the Evaluation Committee also the written procedures improved the process of decision-making. - The collaboration between the JTS and the NAs is good mainly because inside JTS are working people coming from all the programme countries also the beneficiaries and the national structures of the programme can talk with the professional people from JTS in their own language and the communication is better. - The programme system is very clear and every member of the chain has well established responsibilities.
Weaknesses
<i>Institutional level</i>
<ul style="list-style-type: none"> - At the present date, there is not an optimum articulation between the system pillars mentioned above. - Among the programme structures there is overlapping that means doubled activities and lack of efficiency. An example is the one of the submitted beneficiaries' reports that are checked by three levels (First Level Control/auditors, JTS, JMA). - There are many responsibilities defined for the JMA and several for the JTS and most of the tasks belonging to JMA are transferred to the JTS. - On the other side, as far as the management programme issue, in case of Romania it is observed that the regional actors are not involving actively and constructively, their direct interest being more linked to punctual projects and less to contribute to the improvement of the programme management. - There are differences in the interpretation of some rules in the view of different bodies of the programme, being very strictly interpreted by the financial control and more flexible by the other bodies. - There are differences in solutions between the JTS and first levels of control in some matters. - The institutional system is very burdened in matters of control of the beneficiaries, that even if has as explanation the need for control of the money spending, this is not always a guarantee for transparency and correctness.
<i>Issues that affect the results of the programmes and projects</i>
<ul style="list-style-type: none"> - Many applicants, mainly from the Partner Countries, have low financial and operational capacity. - There were identified quite often obstacles in communicating with various partners, especially with the Ukrainians ones.

- It was noticed a low number of investment projects where the lack of cross-border impact was significant.
 - The centralized system from the Partner Countries is affecting the flow of information to the directly interested potential applicants and they do not attend all the time the events organized on their side of the border.
 - Sometimes there is a lack of experience coming from the Ukrainian partner and this aspect burdens the work of the Romanian beneficiary.
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Source: Own researches

Evaluation of Cohesion Policy in Romania: new perspectives

Teodora Diana IACOB*

Abstract

The 2014-2020 programming period has brought several changes in terms of programming the Cohesion Policy at European level. Based on the lessons learned from past experiences, the new vision for the implementation of interventions financed under the European Structural and Investment Funds determined the consolidation of some key instruments, including programme evaluation. Taking into consideration that Romania is presently evaluating its second generation EU financed programmes, the objective of the article is to analyse, in a comparative manner, the two planning phases of evaluation of Cohesion Policy in Romania. This will include the identification of the main changes that occurred in terms of elaboration and implementation of evaluation plans and a short description of the progress related to the development of the evaluation capacity of public policies at national level since new requirements and responsibilities were established with the scope of achieving more and better policy results.

Keywords: Cohesion Policy, programmes, evaluation function, evaluation plan, results

Introduction

The effective and efficient use of European Union (hence EU) funds have always represented guiding principles for the negotiating processes of the multiannual financial frameworks alongside a proper regulation and planning of the policies. Based on the lessons learned from the previous exercises, the 2014-2020 programming period has brought important changes from this perspective, out of which: a stronger concentration on the Europe 2020 priorities, performance rewarding and support for the integrated programming approaches as well as a greater focus on results (Reg. EU no. 1303/2013). This new perspective determined the enhancement and re-orientation of the evaluation function towards measuring impact and improving management, detrimental to other principles such as relevance or sustainability (Bouroşu, 2009, p. 177). Considering that Romania has just finished its first implementation period of EU funded programmes, without taking into consideration the pre-

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accession period, the general objective of this paper is to analyse from a neo-institutionalist perspective the two planning phases of the evaluation activities in terms of: architecture, objectives, the number and complexity of the evaluation exercises, the methodologies and instruments foreseen, the involvement of the stakeholders and the expected results. This analysis may be interesting since a decade ago, Romanian administrative system was characterized by a limited experience and capacity to understand and conduct evaluation activities designed for public policies and programmes (Cerkez Ș., 2009, p. 118). Considerable efforts were made in order to continuously increase the level of knowledge among relevant actors and to develop the necessary competencies both in terms of demand and supply side.

In this context, the main research questions are:

- What was the approach that guided the planning processes of evaluation activities designed for the Cohesion Policy during 2007-2013 programming period?
- What was the rationale of the changes regarding the evaluation function at EU level and how has Romania accommodated the new requirements?
- What has improved in terms of planning the evaluation for 2014-2020 compared to the previous period?

The methodology used to answer to these questions was based on desk research and included: EU regulations and methodological guidelines released by the European Commission services that support the planning and conducted the evaluation studies, the evaluation plans for the seven, respectively six operational programmes as well as the evaluation plans at the level of National Reference Strategic Framework (2007-2013) and Partnership Agreement (2014-2020).

1. An institutional perspective in policy evaluation

The emergence of the European Union represented for both the political science and international relations theoreticians a very complex subject that contributed to the enrichment of their area of research in the attempt to explain its development based on the interaction of economic, political and social levels (Jupille, 1992, p. 430). This analysis determined continuous debates facilitated by theoretical approaches such as neo-functionalism, intergovernmentalism or institutional theory that influenced the institutional architecture together with the decision making processes and the power relations within the EU. In this context, the institutional theory focused on the study of institutions, the dynamics and the impact that the institutions have over different types of systems

through the redefinition and changed interests of relevant actors. From Elinor Ostrom's perspective, the institutions are understood in a direct relation to "rules", the rationale of this approach takes into consideration that rules operate as a system detrimental to an individual perspective. In this sense, the study of institutions relates to their real impact on both planned and implemented strategies and policies (Ostrom, 1986, p. 19). Thus, as Saurugger and Radaelli mention, political institutions are a collection of inter-related rules and practices that define the actions as a relationship between roles and situations (Saurugger, Radaelli, 2008, p. 213). As Rosamond argues, the emphasis on organizational rules, structures, codes and norms is based on the Weberian approach of assuming that organizations have the aim to reward, sanction and set up principles with the scope of designing a certain type of behaviour. The actors within an organization are influenced by a wide range of types of control such as hierarchies, sanctions, rules, procedures and structures. Weber's theory was criticised for the lack of attention related to the manner individuals work in different organizations. As a consequence, a reoriented interest for the study of institutions appeared and the institutionalism trend divided into "old and new" types of institutionalism (Rosamond, 2007, p. 122). In this context, many theoreticians analysed the actors and institutions from this new perspective, also known under the name of neo-institutionalism. According to Selznick, the distinction between the two approaches is based on the fact that institutional theory did not take into consideration the political results that should have been explained based on the role of the institutions, their vitality and coherence (Selznick, 1996, p. 276).

The new institutionalism or neo-institutionalism advanced a general perspective in relation to the concept of institutions which was understood as a specific set of ideas and premises that focus on the relationship between the institutional characteristics and the political action, performance and change, as well as on the relationship between collective behaviour, institutions and results (Chiffa, 2011, p. 27). Even though the theory promoted a core idea, namely that institutions really matter because they define and determine human behaviour and moreover, they offer legitimacy to managing and behaviour rules especially in terms of power relationship and stability of social and cultural norms, three different research directions appeared (Knill, 2003, p. 20). The interest for institutions was influenced by the different perspectives and understandings of the concept as well as by the national and international relationships between actors: "the different theoretical variants are grouped into sociological institutionalists, focusing on normative and cultural institutions that establish a 'logic of appropriateness' for human behaviour, the rational-choice institutionalists, focusing on strategic, goal-oriented behaviour within institutional limits, and historical institutionalists,

borrowing somewhat eclectically from the other two schools though with a special appreciation of the influence of history on present day policy-making ” (Hall and Taylor, 1996; Immergut, 1997; Nùrgaard, 1996 apud Knill, 2003, p. 20). Even though the three perspectives share a common idea, namely that institutions matter, they vary from the point of view of the way institutions make the differences, namely how institutions shape political behaviours and outcomes (Kato, 1996, p. 556).

The historical new institutionalism perspective, as it was synthesised by Peter A. Hall and Rosemary C. R. Taylor, defines institutions as sets of formal and informal procedures, practices, norms and conventions, embedded in organizational structures both from a political and economic point of view. They may be understood as a result of the rules generated by an order that is based on constitutional norms and the order enforced by standard procedures specific to governments and bureaucracy conventions. In general terms, the idea supported by this theory associates institutions with organizations and with the rules or conventions promoted by these (Hall and Taylor, 1996, p. 938). This perspective implies that the historical background is the determinant factor for the institutional development through different methods. According to Pollack, the representatives of this theory focused on the “effects produced in time by the institutions, especially on the particular approaches through a set of institutions once established may constrain the behaviour of those who established it” (Pollack, 2005, p. 363). Institutions do count since they offer moral and cognitive frameworks for the interpretation of actions. The individual is seen as an entity related to a world of institutions, composed of symbols, scripts and practices which ensure the necessary filters for interpretation, and the particular situations subsequently determine a course of actions. Moreover, the cultural approach explains the durability of institutions, thus understanding the conventions associated with the social institutions which are not a result of the individual choices. In this context, the power plays a very important role alongside the asymmetric power relations in such analyses. Even if this perspective takes into consideration the importance of institutions in the political life, it gives a relatively low attention to the idea according to which institutions are the only causal forces in politics since the relationship among institutions ideas and beliefs appears more relevant (Hall, Taylor, 1996, p. 941).

This approach was analysed in comparison to the rational-choice approach since these two promote different points of view. Therefore, *the rational-choice new institutionalism* was a second perspective developed within the institutional theories and it was characterized by the analysis of the democratic transitions in terms of game-theory and the implications of institutional reforms of public policies. The school of international relations used the concepts defined by the theorists of rational-choice approach to explain the emergence and fall of regimes, the responsibilities that the states

delegated to international organizations or their structures (Keohane and Martin, 1994 apud Hall and Taylor, 1996, p. 12). Based on these premises, Pollack mentions that the rational-choice perspective uses a characteristic set of hypotheses of human behaviour to state that, in general terms, the relevant actors have a fixed set of preferences or tastes and act entirely instrumental maximising their interests, in a very strategic manner that implies extensive calculations. Moreover, while other philosophical schools have the tendency to promote a characteristic image of politics, whether a “fight for power” or a “social knowledge process”, the rational-choice theorists consider politics as a series of actions and common dilemmas within which the individuals act so as to maximise the achievements in terms of preferences thus contributing to a result that is collectively sub-optimal (Pollack, 2006, p. 32 in Jørgensen; Pollack; Rosamond, 2006). One of the contributions assumed by this type of new institutionalism highlights the role of strategic interaction in terms of determination of political results. This implies that each individual’s behaviour is not influenced by historical impersonal forces, but by individual strategic calculations, the latter being influenced to a large extent by the individuals’ expectations in relation to the behaviour of others. The promoters of this approach tried to explain both individual and collective behaviour in the context of aggregation of individual preferences. Therefore, the individuals do not choose a perfect state of something, but they compare and choose between alternatives, considering the physical constraints of the actions and social contexts, often based on incomplete information (Idem). Moreover, the process of institutional set-up is usually associated to a voluntarily accord of different actors – if the institutions are subject to a competitive selection process than these will survive because they ensure more benefits to the relevant actors than an alternative to a simple form of institutionalisation.

Contrary to the above mentioned approaches, *the sociological new institutionalism* focused on the rejection of the rational-choice models. In this sense, the institutions became independent variables, oriented towards cognitive and cultural explanations; the interest in analysing the supra-national units could not be reduced to aggregated consequences of individuals (DiMaggio and Powell, 1991, p. 7). Thus, this approach took into consideration two major concepts: the institutional “culture” and the power of persuasion and communication activities within institutional changes. “Culture” represents the appearance of a common reference framework, norms that govern behaviours and “cognitive filters” (Rosamond, 2007, p. 125 in Cini, 2007). This type of new institutionalism concentrated its efforts to understand the creation and diffusion of organizations, embedding macro-social parameters, defined in terms of universal norms, rational expectancies, and democratic principles. The institutions are defined from a wider perspective in comparison to the definitions

offered by the previous perspectives, they are not only reduced to formal rules, procedures and norms, but also involve systems of symbols, cognitive scriptures and moral frameworks providing a "structure of meanings" that aims to guide and influence human actions (Hall, Taylor, 1996, p. 947). Nevertheless, as Powell underlines in his paper "*The New Institutionalism in Organizational Analysis*", this perspective has its origins in the theoretical approach advanced by Selznick. The differences between the two theories are presented by Powell and DiMaggio and respond to a series of challenges related to: the nature of conflict of interests, the source of inertia, the emphasis on structure, the level and nature of organizational embedding, the organizational dynamic, key-concepts of knowledge, the cognitive base of order, scopes/agenda (Dimaggio and Powell, 1991, p. 13). The principles of sociological approach influenced the theoreticians in their attempt to offer answers to questions regarding the structure of organizations and their expectancies in relation to other institutions, the extent to which they adapt to the institutional environment and which are the concrete effects of this adaptation process. In this context, organizations action and define their structures with the aim of gaining legitimacy, according to the norms and formal rules demonstrating the conformity and achieving the proposed objectives. Organizations usually adopt new institutional practices not to anticipate the scopes or for an increased efficiency, but for more social legitimacy of the institution or its members.

Taking into account that institutionalization is defined as a process, Powell considers that there are different types of diffusion processes: coercive, normative and mimetic. The coercive factors imply political pressure and state influence generating a form of supervision and permanent control; the normative factors are the result of potential influence from different professional and educational sectors and the mimetic factors are the results of usual circumstances and uncertainties (Powell, 2007, p. 2). Subsequently, Meyer and Scott introduce a new concept related to the sociological approach of the new institutionalism, the "organizational field" (Meyer and Scott, 1983 *apud* Powell, 2007, p. 3). An organizational field represents a community of organizations that are not absolutely similar which includes producers, consumers, coordinators and consultants, employed in common activities, subject to similar types of pressure. From Powell's perspective, the institutionalization process of a field encounters four phases:

- 1) *an increase in the amount of interaction among organizations within a field;*
- 2) *the emergence of well-defined patterns of hierarchy and coalition;*
- 3) *an upsurge in the information load with which the members of a field must contend;*

4) *the development of mutual awareness among participants that they are involved in a common enterprise* (Meyer and Scott, 1983 *apud* Powell, 2007, p. 3).

Table 1. Main elements of the three types of new institutionalism

Historical institutionalism	Rational choice institutionalism	Sociological institutionalism
Institutions are defined as sets of formal and informal procedures, practices, norms and conventions;	Each individual behaviour of an actor is influenced by strategic calculations, under the influence of others' behaviour or factors;	Institutions are not only sets of rules and procedures, but also systems of symbols, cognitive scripts and moral frameworks;
The institutional arrangements result in path dependence and unintended consequences;	The relevant actors have a certain set of preferences and act instrumentally in order to maximise their interest;	The identities and preferences of actors are not fixed, but flexible; the interactions between actors are permanent and complex;
The relationship between institutions and other factors shapes political activities and outcomes;	The individuals act so as to maximise the achievements in terms of preferences thus contributing to a result that is collectively sub-optimal;	The organizations usually adopt new institutional practices for more social legitimacy of the institution or for its members.

As regards the critics of the new institutionalism, there were two directions identified: there were critics addressing each of the three forms of institutionalism and critics that focused on the general theory. The historical new institutionalists were criticised for their eclecticism and for giving less attention to the sophisticated understanding of the manner in which institutions impact and influence behaviours; the rational-choice approach was criticised for the fact that is too often functionalist, explaining the origins of institutions using the effects resulted from their existence; for the sociological institutionalists, many of the critics focused on the argument related to institutions' emergence, which is considered poorly supported with arguments since it does not take into consideration the powers fusion between actors and the different existing interests. The representatives of constructivist theory argued that the hypotheses advanced by the general theory of new institutionalism are very hard to test and the level of abstraction is extremely high, at least at theoretical level.

The European integration process is usually interpreted using the institutional theories in order to offer alternative explanations related to the power relationships and interdependencies between member states, the political processes including the decision making processes, the strategic directions of policies and their implementation. In order to reduce the level of theoretical abstraction related to the institutional theory, Knill and Lehmkuhl (1999) identified three models of influence of supranational institution building over domestic conditions, respectively:

- “Firstly EU policy ‘positively’ prescribes an institutional model to which domestic arrangements have to be adjusted. Accordingly, member states have only limited institutional discretion when deciding on the concrete arrangements in order to comply with European requirements;
- Secondly, European legislation may affect domestic arrangements by altering the domestic rules of the game. European influence is confined to altering domestic opportunity structures, and hence the distribution of power and resources between domestic actors;
- Thirdly, in its “weakest” form, European policy neither prescribes concrete institutional requirements nor modifies the institutional context for strategic interaction, but affects domestic arrangements even more indirectly, namely by altering the beliefs and expectations of domestic actors” (Knill and Lehmkuhl, 1999, p. 2).

In terms of European policies, the rational-choice perspective emphasises the causal link of formal rules deriving from the regulations and the way in which they influence the policy results. Moreover, the cooperation procedures and co-decision process remain opened subjects in relation to the lack of efficiency and flexibility of some specific institutional rules with direct implications on member states policy results. Complementary, from a historical perspective it is very interesting to observe the changes produced in time by different institutions, especially in terms of adapting and adjusting national frameworks in order to accommodate the new procedures, norms, regulations.

As an intermediary conclusion and based on the assumptions advanced by the approaches of new institutionalism, the study of European integration process including the decision making processes takes into consideration the importance of institutions and institutional systems and how they define and shape the member states behaviour. As Bulmer and Radaelli mention, the institutionalist theory focused on the premises that the EU is a specialized and complex self-validated compound, , within which the decisions cannot be the result of a single group utilities formed by member states (Bulmer, Radaelli, 2004, p. 7).

2. Evaluation of Cohesion Policy in Romania

Over the past decades, the attention of the researchers in terms of evaluation of public policies and programmes has focused both on the evaluation process itself as a public policy management instrument due to the well-defined scope, namely to improve the governance through increased use of evaluation results, and on the degree of institutionalization of evaluation, with particular emphasis on evaluation capacity and the development needs identified. Influenced by the multiple functions,

methods, techniques, actors and institutional forms, evaluation of public policies has represented a research theme for the public policies theories as well as for those that tried to explain the emergence and the functioning relationships of institutions (Sanderson, 2000, p. 434). The institutionalization of evaluation represents one of the most important result of the process itself and it is directly related to the capacity of stakeholders to plan and conduct evaluations. This implies a formal acceptance of evaluation elements within the decision-making processes (Segone, 2006, p. 25). From Carol Weiss's perspective, the analysis of the institutional dimension of public policy evaluation should take into consideration two important aspects: the existence of a democratic and competitive political system and decentralised policies, both characterized by openness towards results and accountability. This capacity of the systems implies also other characteristics such as: a certain level of understanding of evaluation units by the decision makers, education and professional skills of the decision-makers, an increased level of interest of the political science researchers to conduct studies and analyses of public policies, the presence of institutions to connect the academia and the governance as well as the needs and problems included on the political agenda (Weiss, 1999, p. 473).

In Romania, the institutionalization process of the evaluation of public policies was a consequence of the pre-accession period followed by a first exercise as member state of the European Union, namely between 2007-2013 period (Cerkez, 2012, p. 16). One of the conclusions of the *Final Report on the Framework to Analyse the Development of Evaluation Capacity in the EU Member States (2008)*, was that in terms of level of institutionalization of evaluation within the wider governance system - *the role of evaluation in national budgetary process, the role of evaluation in the formulation of sectoral strategy and policy making, the existence of mandatory evaluation requirements, public management reforms and a public policy research base*, Romania's baseline position was characterised relatively low by international standards (European Commission, 2008, p. 168). Based on these premises, the Romanian administrative structures were conditioned to implement major reform actions with the aim of consolidating the administrative capacity (Stăvaru, 2015, p. 122). In this sense, national authorities responded to the "*General principles of the management and control systems*" of Council Regulation (EC) no. 1083/2006 in order to establish the institutional architecture for the managing and control of the European funds, including the evaluation function (Cotovelea, 2014, p. 152). Nevertheless, at European level, evaluation has passed through several changes during the last implementation exercises which determined changes in all member states. The last two financial exercises are very different both at theoretical and practical level. In this sense, in the 2007-2013 programming period, evaluations tended to focus more on

implementation issues than on capturing the impacts. For the 2014-2020 period, instead, the general regulations require authorities to carry out evaluations which assess the effects of the programmes financed under the European Structural and Investment Funds (hence ESIF). This is an essential element of a strengthened results-focus orientation of the policy that is reflected within the European legislation and complementary documents. A very interesting finding when analysing the European model in relation to evaluation during the two financial exercises derives from the mandatory character of the activity itself. In this sense, the Working Document: *Indicative guidelines on evaluation methods: evaluation during the programming period 2007-2013* issued by the European Commission in 2007 provided indicative guiding regarding the planning and coordination of evaluation activities designed for the national programmes financed by the European Union. Thus, according to this document, an **evaluation plan** could be drafted, including the evaluation activities. This represented only a recommendation for the member states, as referred to in Article 48 [1] of Council Regulation (EC) No. 1083/2006. The main purpose of setting up an evaluation plan was to provide an overall framework for on-going evaluations and to ensure that it is effectively used and integrated as a management tool during the implementation phase. Contrary to this approach, in the current programming period a stronger emphasis is put on the need to evaluate the effectiveness of the policies co-financed through the programmes of the EU funds. The regulatory framework of the current period and in particular Regulation (EU) No 1303/2013 repealing Council Regulation (EC) No 1083/2006 has reinforced the focus on results at the level of programme design and implicitly at the level of programme monitoring and evaluation. As it was stated in European Commission (EC) document *Synthesis of Evaluation Results and Plans under the ESIF Programmes 2014-2020* “the programmes now require the definition of specific objectives, which articulate the change sought by the policy, result indicators to monitor and measure this change and output indicators characterizing the concrete actions implemented. Evaluation is understood as the tool to disentangle the effects attributable to the policy from those of other factors that also influence the development of result indicators and achievement of specific objectives” (European Commission, 2016, p. 2). In this sense, art. 114 of the Regulation (EU) No 1303/2013 of the European Parliament clearly establishes the mandatory character of the evaluation plans as follows: “**An evaluation plan** shall be drawn up by the managing authority or Member State for one or more operational programmes. The evaluation plan shall be submitted to the monitoring committee **no later than one year after the adoption of the programme**”. Therefore, the role of the evaluation plan is to a large extent reconsidered compared to the previous programming period in the sense that it supports quality evaluations as well

as their effective use by the responsible authorities; facilitates sharing of knowledge on what and how works in different policy fields; and, ultimately, contributes to the design and implementation of evidence based programmes and policies (EC Guidance Document, 2015, p. 3).

Table 2. Comparative perspective on the evaluation plans content

Elements of the evaluation plans 2007-2013 ⁸	Elements of the evaluation plans 2014-2020 ⁹
1. Indicative list of evaluations to be carried out (titles)	The evaluation function with a clearly defined responsibility for designing and delivering the evaluation plan, and coordinating, monitoring and promoting the quality of evaluation activities throughout the whole evaluation cycle.
2. Scope of each evaluation;	Description of the evaluation process led by the managing authority (responsibilities of involved bodies: evaluation steering group, technical working groups, scientific or other expert academic input, monitoring committee etc.).
3. Main evaluation questions to be considered;	The involvement of partners in evaluation (Art. 5(2) and (3)(d) and art. 49(4)) within the framework of the monitoring committees or in specific working groups established by the monitoring committees; and their consultation on the report(s) summarizing the findings of evaluations due by 31 December 2022.
4. Potential use of each evaluation (presentation and distribution of results, monitoring the use of recommendations);	The source for evaluation expertise (internal/ external/ mixed) and provisions ensuring the functional independence of evaluators from the authorities responsible for programme implementation (Art. 54(3) CPR ¹⁰)
5. Indicative timetable	Possibly a training programme (for example, seminars, workshops, self-study and working with other evaluators) for people from managing authority dealing with evaluation.
6. External or internal evaluation;	A strategy to ensure use and communication of evaluations: how their findings will be followed up; how the evaluations will be made public (Article 54(4) CPR); how they will be transmitted to the Commission. Transmitting final evaluation reports through the electronic system with the Terms of Reference, the budget, and the evaluation methodology is good practice; this will allow the Commission to provide examples of methodological approaches used in different fields to the evaluation community, to analyse the evidence produced and as far as possible build a repository of evidence for policy making.
7. Financial resources planned for each evaluation;	An overall timetable showing how the evaluations will feed into implementation and the various reports on programmes;
8. Management structure (including an evaluation steering group – section 5.1).	The overall budget for implementation of the plan (covering the cost of evaluations, data collection, training etc.). Including a budget, human resources and possibly a training programme contributes to meeting the legal obligation of Member States to provide the resources necessary for carrying out evaluations (Article 54(2) CPR). If technical assistance is used for the purpose of the plan, the corresponding amount should be set aside in the technical assistance budget.
9.	A quality management strategy for the evaluation process: drafting good terms of reference and managing contracts have an important role to play in delivering good evaluation results.

⁸ European Commission (2007), Working Document no. 5, Indicative Guidelines on Evaluation Methods, Evaluation During the Evaluation Period

⁹ European Commission (2015), Guidance Document on Evaluation Plans, Terms of Reference for Impact Evaluations, Guidance on Quality Management of External Evaluations

¹⁰ Regulation (EU) no 1303/2013 of the European Parliament and of the Council

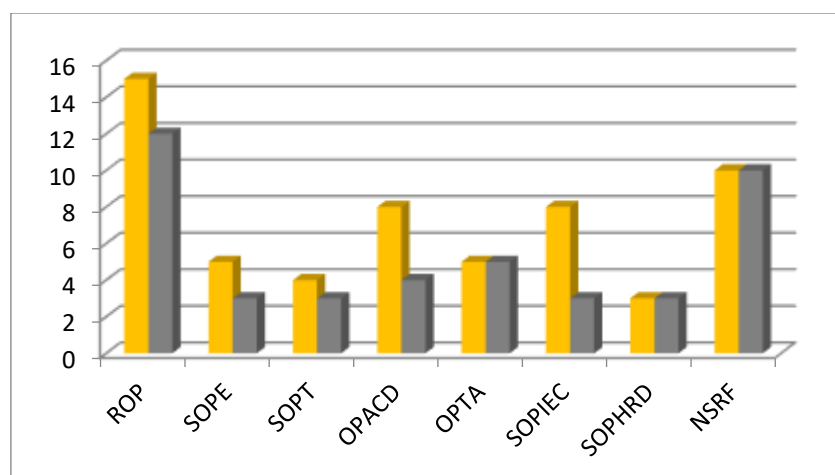
As it can be observed, the requirements regarding the content of the evaluation plans changed considerably, the shift in vision being reflected firstly from a legislative perspective and secondly from a normative point of view. If for the 2007-2013 period, the plans were indicative and included a reduced number of elements, for the current period, these documents transformed into very complex working documents both for the member states and the European Commission.

In order to have a clearer picture on how all the differences mentioned above have practically influenced the evaluation activities during the planning phase, the subsequent section of this paper will briefly present, from a comparative perspective, some of the elements included in the evaluation plans based on the following criteria: *management and planning, management function, responsibility, coordination, design and methods, data availability and data systems, skills and expertise required, use and communication*.

Therefore, for the recently ended programming period, the evaluation activities were included in evaluation plans, elaborated by the responsible structures, namely the evaluation units within the managing authorities for each programme. In this sense, almost sixty evaluations were planned and included in seven distinct multiannual evaluation plans elaborated for: Regional Operational Programme (ROP; for this programme there were also elaborated four annual evaluation plans and a multiannual plan for 2013-2015 period, but for a simplified analysis especially, these plans were considered updates for the first, the document released in 2009), Sectoral Operational Programme Environment (SOPE), Sectoral Operational Programme Transport (SOPT), Sectoral Operational Programme Increase of Economic Competitiveness (SOPIEC), Sectoral Operational Programme Human Resources Development (SOPHRD), Operational Programme for Administrative Capacity Development (OPACD) and Operational Programme Technical Assistance (OPTA). Complementary to these documents, an evaluation plan was elaborated at the level of National Strategic Reference Framework (NSRF), the reference document for the implementation of Structural Instruments for the above mentioned period. The degree of accomplishment of evaluation activities included in the plans varied between operational programmes ranging from full to medium accomplishment. Delays, in some cases substantial, were registered between the execution/implementation of evaluations and the date on which they were scheduled in the multiannual plans (Ministry of Regional Development, Public Administration and European Funds, 2012, p. 18). According to the analysis conducted by the Ministry of Regional Development, Public Administration and European Funds, the execution rate of the multiannual evaluation plans varied between 30% and 100%, with an average delay of 6 months between the planned date included in the plans and the completion date. According to the data

provided, some of the reasons of delay between the evaluations and the date on which they were scheduled in the annual plan are: difficult public procurement procedure, high number of appeals and slow progress of the program (Ministry of Regional Development, Public Administration and European Funds, 2014, p. 30).

Figure 1. Planned vs. finalized evaluations during 2007-2013 period



Source: Own representation

In terms of *management and planning*, as it was stated above, the plans were elaborated by each evaluation unit within the managing authority. The phases of planning evaluation activities were the following:

- Drafting the plan (multiannual and annual where the case) by the evaluation unit;
- Consultations with the relevant stakeholders;
- Transmission of the plan to the Monitoring Committee for approval;
- Informing the Monitoring Committee members on a regular basis regarding the progress towards the activities planned;
- Contribution to the elaboration of the progress reports.

Based on the guidelines offered by the European Commission and on the existing capacity to plan and conduct evaluations by 2007, the indicative documents had a similar structure, namely:

- a section dedicated to the context of the programme/ NSRF, including the legal framework;
- a section designed to detail the coordination and management of the evaluation plan, roles and responsibilities of the stakeholders;
- a section dedicated to evaluation capacity building;

- a section that included the indicative activities for each programme/NSRF;

As regards the *management function*, evaluations activities were jointly managed by the evaluation units within the managing authorities and the evaluation steering committee designed for each plan, whose main objectives were to ensure a participatory approach with a view to the implementation of the evaluation activities, from both an administrative and qualitative perspective.

The *responsibility* of the plans incurred entirely to the managing authority, but the *coordination* was ensured by the Central Evaluation Unit within the Authority for Coordination for Structural Instruments, subsequent to the Ministry of European Funds. With a view to the *design and methods* as well as *data availability and data systems, skills and expertise required*, the plans did not include details; the indicative list of evaluations encountered four dimensions: the proposed evaluations/title, the scope and coverage, the main focus (efficiency, effectiveness, relevance, impact, sustainability) and the indicative deadline. An exception in this case was Regional Operational Programme, for which the evaluation plans were more detailed, comprising evaluation questions, budgets, a more detailed calendar of subsidiary activities, but nonetheless, in terms of design and methods, data availability and data systems the plans, skills and expertise they were still under developed. In terms of *use and communication*, according to the information included in the evaluation plans, the evaluation results were presented within the reunions of the Monitoring Committee that decided also the recommendations to be implemented, the responsible structure and deadline. After this phase, the evaluation reports were distributed to the Geographical Units and Evaluation Unit from European Commission, managing authorities and Evaluation Central Unit. Executive summaries of the reports were made publicly available. Regarding the evaluation capacity within the EU funds management and control system, during 2012-2014, the Central Evaluation Unit - the responsible structure for the coordination of evaluation function for the operational programmes and NSRF¹¹ conducted a three year study with the aim of measuring the evaluation culture in the context of EU Cohesion Policy in Romania. According to the results of the first annual measurements compared to the third annual measurement of evaluation culture revealed a slight improvement from 57% (2012) to 59% (2014) achieved score under ECI (Evaluation Culture Measurement Index), which is mainly due to the registered progress of the supply side, namely the pre-existing resources, skills and institutions to respond to the demand for evaluation. On the other hand, the demand side registered a continuous decrease, caused by the „*financial resources allocated to evaluation*” criteria.

¹¹ National Strategic Reference Framework.

The gap between the measurement cycles was not triggered by a significant reduction of the financial allocation, but mainly by the inclusion in the international benchmarking of aggregated data from countries that have higher budgets dedicated to the evaluation (e.g. FR, IT, LT,HU)¹² (Ministry of Regional Development, Public Administration and European Funds, 2014, p. 30).

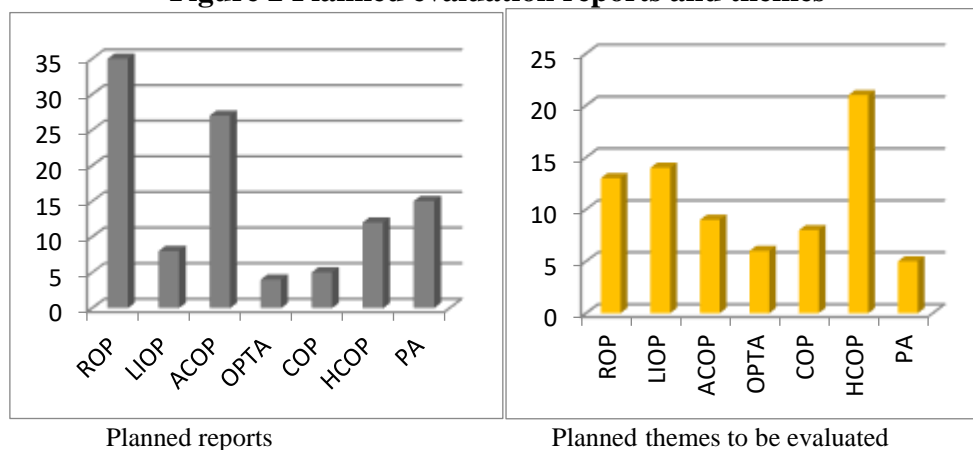
For the 2014-2020 period the logic changed even from the programming phase in the sense that the evaluation plans were elaborated within the ex-ante phase for each operational programme and Partnership Agreement in consistence with all the principles that governed the entire preparation phase of these documents. So, in terms of *management and planning*, the documents were elaborated in close cooperation with the programming experts, consulted with the Monitoring Committee members and agreed upon with the representatives of the European Commission. Moreover, the management responsibility of the plans has now changed; the evaluation function is transferred only to one structure within the Ministry of Regional Development, Public Administration and European Funds, the Programme Evaluation Service, as compared to the previous programming period. In addition to the Evaluation Steering Committee set up for each plan, a novelty for this period is the presence of a Scientific Committee. Its main objective is to ensure a higher quality of evaluation in key moments by assessing the approaches for evaluation, the methodologies, data accuracy and quality of analyses as well as the degree of impartiality of conclusions of each evaluation report for four out of six programmes and for the Partnership Agreement. Both the *responsibility and coordination* of the plans belong now to the dedicated structure mentioned above.

A real improvement in terms of programming evaluation activities refers to the intervention logic of programmes that sets the need for *design and methods* for evaluation. The evaluation plans are now supplemented with a very detailed scheme for each evaluation theme including: the scope of evaluation, main evaluation questions, the users and stakeholders of the results, the content of evaluation report, minimal methodology, necessary data and type of expertise required, which represent the main change of vision for the evaluation function of ESI funds. The increased number of impact evaluations planned indicates that the authorities have considered carefully the regulatory requirements and are focusing more on programme results rather than process and implementation aspects, which were the main drivers of evaluations in the previous programming period. For the *use and communication* of evaluation results, the plans include activities that have the aim to promote and to contribute to an increased level of awareness of both the decision makers and stakeholders

¹² The report is available at http://www.evaluare-structurale.ro/images/Y_upload_rapoarte/01_POAT/09_Evaluation_Culture3/01._Evaluation_report_EN.pdf

through: dissemination events, an updated website, including an e-library that includes the complete version of the reports. Moreover, a dedicated working group for evaluation will be established in order to support the evaluation function during the entire period.

Figure 2 Planned evaluation reports and themes



Source: Own representation

As it can be observed from the graphics above and compared to the previous period, the number of evaluation reports increased considerably, from almost sixty to more than one hundred. In addition, for 2007-2013 the number of evaluation reports coincided with the evaluation themes compared to the current period where the number of reports exceeds the number of evaluation themes due to the fact that some of them are subject to evaluation more than once. This logic relates to the need to observe and to measure the results taking into account the time variable. Nevertheless, the degree of complexity of evaluation exercises does not represent the subject of this paper.

Conclusions

The design and implementation of EU policies represent a challenge for both the initiators and national governments that have the responsibility to accommodate the new requirements and implicitly adapt the existing structures in order to respond to exigencies related to results and accountability for public expenditures. Each multiannual framework determines changes that can be understood from institutional perspectives in terms of effects, maximization of interests or complex interaction between key actors. In order to offer a concrete example, the article focused on comparing two planning phases of evaluation activities related to Cohesion Policy. So, if for the 2007-2013 programming period evaluation activities focused to a large extent on improving implementation

processes and implicitly achieving the expected results, for the newly started programming period the objective of evaluation activities is to measure the impact of interventions with a view to improve and support in a more tangible manner the achievement of the results. In this context, the Romanian administration made all the necessary efforts in order to ensure a coherent approach for the evaluation activities by elaborating more rigorous evaluation plans alongside a unitary coordination of the strategic documents. Nevertheless, whether the shift in vision will conduct to better and improved use of evaluation results could be the subject of future analyses.

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Improving digital competence in Romania: learning from the best

Mihaela BUICA *, Gabriela DRAGAN **

Abstract

The main objective of this paper is to analyse and understand the factors which constantly position Romania on the last places of the European digital rankings, especially at the Human Capital/Digital skills indicators and, secondary, to raise awareness concerning the necessity of increasing digital competences in Romania. The paper provides a comparison among Romania and other three European countries, better positioned on the European ranking, namely Germany, Poland and Denmark. The paper concludes that the level of preparedness of the human capital with digital competence has played a crucial role in assuring the success of the European industry. Learning from the better positioned countries on the European digital ranking can be a solution for Romania in increasing its performance and maintaining a valuable role in the European industry framework.

Keywords: Digitising European industry, comparative analysis, human capital, digital competence, Romania

Introduction

Industry is one of the main ‘pillars’ of the European economy and taking into consideration its importance in the global macro-economic context, a new industrial strategy was launched in 2010, proposing “a fresh approach to industrial policy” and an “integrated” approach for the new “Globalisation Era” (European Commission, 2010c, p. 4).

Since April 2016, European industry strategists have become even more daring in approaching the future in this field and started an official process of digitisation of industry as “...a unique opportunity for attracting further investments into innovative and high growth digital and digitised industries in Europe” (European Commission, 2016b, p. 6). The decision has come due to the spectacular development of digital technologies and after less than a year, when a “strategy for a

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Digital Single Market proposed transformational actions for the European economy and society” (European Commission, 2016b, p. 15).

In recent times, many of the Member States have identified an opportunity to increase their competitiveness through integrating digital technologies in the industry by adopting several national initiatives, variously labelled such as Platform Industrie 4.0 in Germany, Industrie du Futur in France, Smart Industry in Netherlands and so on.

Due to the major transformational changes created through digitisation processes and according to the classification for industrial technology development, experts in the field considered this stage of industry development as ‘The New Industrial Revolution’, ‘The Fourth Industrial Revolution’ or, for short ‘Industry 4.0’ (Davies, R., 2015; Schwab, 2015; Schwab, 2016).

The First Industrial Revolution used water and steam power to mechanize production. The Second used electronic power to create mass production. The Third used electronics and information technology to automate production. Now a Fourth Industrial Revolution is building on the Third, the digital revolution that has been occurring since the middle of the last century (Schwab, 2015, p. 3).

About the changes that the new industrial revolution is supposed to bring, Klaus Schwab in his article ‘The Fourth Industrial Revolution: What It Means and How to Respond’ (2015, p.3) notes “We stand on the brink of a technological revolution that will fundamentally alter the way we live, work, and relate to one another. In its scale, scope, and complexity, the transformation will be unlike anything humankind has experienced before”.

Therefore, these daring initiatives which are supposed to be the best solution for economy are coming together with major changes and challenges for the evolution of humankind. As can be easily inferred, these changes need adequate skills. Modernising Europe’s skills base has become a major priority since 2010, when European Commission launched the ‘Europe 2020’ strategy (European Commission, 2010d).

To support EU member states in implementation of digital policy, a Digital Scoreboard was created at the European level, as an instrument designed to measure the progress of the European digital economy. The annual EU Report of Europe's Digital Progress presents an objective image of the current situation.

Since the progress of the European digital economy has started to be monitored, Romania constantly occupies the last places of the ranking in many monitored aspects.

Analysing and understanding the factors which cause this reality is a necessary step in order to promote changes and also respond to the research question of this paper, namely how to raise the digital competence level compared to European average.

Thus, having regard that all statistics confirm Romania's poor ranking and considering this position as a management deficiency, the methodology of this study will have a different approach. Through a comparative analysis between Romania and some of the better positioned countries on the European ranking, we have set out to identify their strengths. Analysing the state of digital transformation in these countries, combined with management and leadership techniques, should be a useful resource for improving Romania's potential weaknesses, through adopting adequate and appropriate digital policies and strategies.

For the comparative analysis we chose the following countries: Romania, Denmark, Germany and Poland. The analysis will be based on the digital requirements for digitisation process of the European Industry. According to the Digital Economy and Society Index (DESI) 2017, Romania occupies last place, the 28th, Denmark 1st place, Germany, a country well known as a digital industry promoter, the 11th place, and Poland, an Eastern European country with strong involvement in addressing new technological trends, the 23rd place.

The paper is structured in two main parts. First part is dedicated to clarifying the two key concepts: 'digital skills' and 'digital competence' and to highlight their importance for the digital progress of a country. Also in this part, the necessity of new managerial strategies adapted for the new challenges related to Industry 4.0, long-term tendencies affecting the growth and to 2030 global trends, will be approached. The second part of the paper assesses the results of the comparative analysis.

1. The importance of having digital skills

Even for those who are not specialists in digitisation area, one can feel and see every day the need to have some skills in handling the different things connected with technologies as ordinary as the television set or the phone. But when we talk about the digital economy and society, the importance of digital skills exceeds the limit of our daily life and becomes a major priority in strategic

documents, with ‘crucial role’ in the development of the modern life as a whole (European Commission, 2010a, 2010b, 2010d).

Due the fact there are various definitions and terms for digital skills and digital competences, a clarifying definition for the two terms is very welcomed in the context of this analysis.

1.1. What are the digital skills and what are the digital competences.

According with the European Parliamentary Research Service (EPRS) (Kiss, 2017, p.4), digital skills are defined as:

a range of basic to highly advanced skills that enable the use of digital technologies (digital knowledge) on the one hand, and basic cognitive, emotional or social skills necessary for the use of digital technologies, on the other hand.

The Organisation for Economic Co-operation and Development (OECD) (OECD, 2016a) identified four types of Information and Communication Technologies (ICT)-related skills necessary at the workplace. These are: ICT generic skills, ICT specialist skills, ICT complementary skills and foundation skills. “People need a minimum level of basic skills, including numeracy, literacy and basic digital skills, to access good jobs and participate fully in society” (European Commission, 2016a, p4).

Having regard that education and training in Europe is the competence of Member States, European Commission through The Directorate-General for Employment, Social Affairs and Inclusion launched a series of European initiatives for skills whose target is the mobilisation of all interested European stakeholders along the three lines of action: Understanding Skills, Developing skills and Showing skills.

In June 2016, a new Communication was adopted, called ‘The new Skills Agenda for Europe’ in order to “...better assist Member States in their national reforms as well as to trigger a change of mindsets in both individuals and organisations” (European Commission, 2016a, p. 3).

Digital competence is one of the eight key competences established in the Reference Framework (European Parliament, 2006), the other seven being: ‘Communication in the mother tongue’, ‘Communication in foreign languages’, ‘Mathematical competence and basic competences

in science and technology', 'Learning to learn', 'Social and civic competences', 'Sense of initiative and entrepreneurship' and 'Cultural awareness and expression'.

Digital competence includes not just digital skills, but a set of skills, knowledge and attitudes concerning the nature and role of information technologies and the opportunities they offer in everyday contexts, as well as the related legal and ethical principles. It also includes critical and reflective attitudes towards the information available and its responsible use (Kiss, 2017, p 4).

In order to produce a set of digital competence descriptors for all levels, in 2013 was published the European Digital Competence Framework for Citizens also known as DigComp (Ferrari, 2013). The competences were grouped in five areas: 'Information and data literacy', 'Communication and collaboration', 'Digital content creation', 'Safety' and 'Problem solving'. To be considered digitally competent it is necessary to have competences in each of these five areas.

In 2016 DigComp 2.0 (Vuorikari *et al.*, 2016) was introduced with the second Phase of the update. Phase 1 of the update, whose central theme is the conceptual reference model, was launched in 2016 followed by the second Phase which is planned in 2017.

1.2. The need for digital skills

Why is so important for everybody to have digital skills? A likely answer was provided by Klaus Schwab (2016, Introduction), that noticed: "In its scale, scope and complexity, ...the fourth industrial revolution is unlike anything humankind has experienced before" and "The change are historic in terms of their size, speed and scope". Fortunately for this question there are many well justified works that answered it, in many forms like legal framework, scientific studies, papers and etcetera. The principal need of having digital competence was strongly derived from the real benefits of digital technologies, both for national level and individual level.

Since 2010, with the adoption of the 'Europe 2020' strategy, Europe has entered a new era, an era with ambitious plans for changing. 'Europe 2020' is, in essence, the strategy of the EU response to globalization, focusing both on the immediate challenge of the recovery and the long-term challenges specifically of remaining competitive at the global level.

To ensure the core priorities on smart, sustainable and inclusive growth, the ‘Europe 2020’ strategy proposes seven flagship initiatives, four of which are particularly important for industry competitiveness: ‘Innovation Union’, ‘A Digital Agenda for Europe’, ‘An industrial policy for the globalisation era’, ‘New Skills for New Jobs’. The other three flagships refer to the ‘Youth on the move’, ‘Resource efficient Europe’ and ‘European platform against poverty’.

The flagship initiative ‘An Industrial Policy for the Globalisation Era’ (European Commission, 2010c) focuses on the central objective of this policy, namely promoting the competitiveness of European industry. Following this Communication, in support of increasing the competitiveness of industry, the European Commission intervened through a series of other Communications. In 2016, an important step in this direction was officially taken by the European Commission, through the Communication ‘Digitising European Industry. Reaping the full benefits of a Digital Single Market’ (European Commission, 2016b).

Thus, all these ambitious strategies need a certain level of preparedness of the human capital with adequate skills. This task of modernising Europe’s skills base became one of the main aims of the flagship initiative ‘An Agenda for new skills and jobs’ (European Commission, 2010b).

Starting in 2013, the European Commission initiated the ‘Grand Coalition for digital jobs’ as a cross-European, multi-stakeholder initiative, in order “to increase the provision of digital skills through stakeholder pledges” (European Commission, 2016b, p.14). In June 2016 ‘A New Skills Agenda for Europe’ (European Commission, 2016a) was adopted, in order to support the framework for employability, including the need for digital and complementary skills.

On the other hand many Think Tanks, NGO’s, private research and consultancy firms offer various studies approaching the different aspects of the process of digitising industry. Some of them developed valuable initiatives of research in the area, such as: World Economic Forum ‘Shaping the Future of Digital Economy and Society’, McKinsey Global Institute ‘Digital Disruption - Understanding how technology is transforming industries and how leaders and organizations can respond’, ‘Employment and Growth -How to drive economic growth and create jobs’, ManPower Group ‘World of Work-The skills revolution’, Boston Consulting Group ‘Mastering the Digital Imperative’, Empirica ‘eSkills & Work’, European Parliament Think Tank (European Parliamentary Research Service) and so on.

The same, we have to mention here the research in the area of the important international institution as UNESCO, UNICEF, OECD.

Among the authors which recently approached the subject of the Fourth Industrial Revolution, the future of jobs and professions we can mention: Klaus Schwab (2016), Eric Schmidt and Jared Cohen (2013), Chris Anderson (2013), Franco Mosconi (2015), Alec Ross (2016), Kevin Kelly (2016), Erik Brynjolfsson and Andrew McAfee (2014), Richard Susskind and Daniel Susskind (2015).

Until now, there were no relevant studies which demonstrate or tried to demonstrate the economical disadvantages of digital technologies. Some of the studies approach the threats of the ‘New Industry’ especially the ones related with the future of jobs. Another interesting approach of the studies is the one related to the speed of development of digital technologies and the risk of automation for jobs (Arntz *et al.*, 2016; Chui *et al.*, 2016; Manyika 2016; Manyika *et al.*, 2017a, 2017b). And last but not least we have to mention here the importance of education and the risk of non-education or low education (OECD, 2010; Costache (coord), 2014; World Economic Forum, 2017).

2. New managerial strategies for new challenges

Nowadays “The European social partners have recognised that digitisation is not just a technological issue, but it has wider social, work and economic implications. It is also a question of economic development and social cohesion” (European Commission, 2016b, p14).

Talking about the challenges that digitisation will bring, besides “...many potential benefits for industrial development...”, “There will be winners and losers, and adjustments to make” (Smit *et al.*, 2016, p 72).

The strategic analysis of the main strengths, weaknesses, opportunities and threats (SWOT) of the Industry 4.0 is presented in Figure 1.

Figure 1. Industry 4.0 – SWOT analysis

STRENGTHS <ul style="list-style-type: none"> • Increased productivity, (resource) efficiency, (global)competitiveness, revenue • Growth in high-skilled and well-paid jobs • Improved customer satisfaction –new markets: increased product customisation and product variety • Production flexibility and control 	WEAKNESSES <ul style="list-style-type: none"> • High dependence on resilience of technology and networks: small disruptions can have major impacts • Dependence on a range of success factors including standards, coherent framework, labour supply with appropriate skills, investment and R&D • Costs of development and implementation • Potential loss of control over enterprise • Semi-skilled unemployment • Need to import skilled labour and integrate immigrant communities
OPPORTUNITIES <ul style="list-style-type: none"> • Strengthen Europe’s position as a global leader in manufacturing (and other industries) • Develop new lead markets for products and services • Counteracting negative EU demographics • Lower entry barriers for some SMEs to participate in new markets, links to new supply chains 	THREATS <ul style="list-style-type: none"> • Cybersecurity, intellectual property, data privacy • Workers, SMEs, industries, and national economies lacking the awareness and/or means to adapt to Industry 4.0 and who will consequently fall behind • Vulnerability to and volatility of global value chains • Adoption of Industry 4.0 by foreign competitors neutralising EU initiatives

Source: Smit *et al.*, 2016, “Industry 4.0”, p. 72

Other challenges may be related to the long-term tendencies affecting the growth (European Commission, 2014) and with the global trends (ESPAS, 2016). In Table 1 there is a parallel view between long-term tendencies affecting the growth and global trends previously specified. As we can easily notice, in both documents, there are the same long-term tendencies which can affect the growth.

Table 1. Parallel view between long-term tendencies affecting the growth (European Commission, 2014) and Global trends to 2030 (ESPAS, 2016)

Long-term tendencies affecting the growth	Global Trends to 2030
<ul style="list-style-type: none"> -Social change -Globalisation and trade -Productivity developments and the use of information and communications technology (ICT) -The pressure on resources and environmental concerns 	<ul style="list-style-type: none"> -Widening inequalities -Vulnerability of the sustained development of the world economy in front of challenges and weaknesses in the globalisation process -Revolution in technologies involving digitization -Managing scarcity of resources -The interdependence of countries and global governance.

Source: Authors own representation based on data from European Commission (2014) and ESPAS (2016)

Taking into consideration the importance and complexity of the subjects, the correct preparedness of the human capital is essential. According to a recent study there is a need for “...the emergence of a Skills Revolution -where helping people upskill and adapt to a fast-changing world of work will be the defining challenge of our time” In the same study it is also highlighted the fact that “Now is the time for leaders to be responsive and responsible...” (ManpowerGroup, 2016, p.2).

In the opinion of the McKinsey Global Institute (Manyika, 2017b, p.112) there are two broad categories of issues for policy-makers to consider. First, increasing the productivity by “accelerating development and deployment of automation” and second, “managing the redeployment to other productive activities of workers whose activities are automated”.

Ultimately, the ability of government systems and public authorities to adapt will determine their survival. If they prove capable of embracing a world of disruptive change, subjecting their structures to the levels of transparency and efficiency that will enable them to maintain their competitive edge, they will endure. If they cannot evolve, they will face increasing trouble (Schwab, 2015, p. 8).

Experts in the management field offered for these new challenges various solutions, strategies, models and ideas of new management, leadership, innovation and creativity.

Some of the ideas for new managerial strategies adapted for the new challenges are presented below.

The recommendation offered by Schwab (Schwab, 2015, p. 9) to decision-makers is to embrace “... ‘agile’ governance, just as the private sector ...”.

The same solution, but for both the private and public sectors, is agreed by Isaksen and Tidd (Isaksen and Tidd, 2006, Preface) “Under these conditions, managers must learn how to become more flexible and agile in order to respond successfully”. In their opinion “successful organizational transformation and managing change demand both leadership and management as well as creativity and innovation”.

Roland Bel in his work ‘Leadership and Innovation: Learning from the Best’ (Bel, 2010, p.47) proposes as a new managerial strategies, learning from the experience of some of the most innovative companies. In the same time, Bel highlights the importance of having good leaders “And without great innovation leaders, there is no innovation”.

3. Comparative analysis between Romanian, Germany, Poland and Denmark based by Digital Economy and Society Index 2017

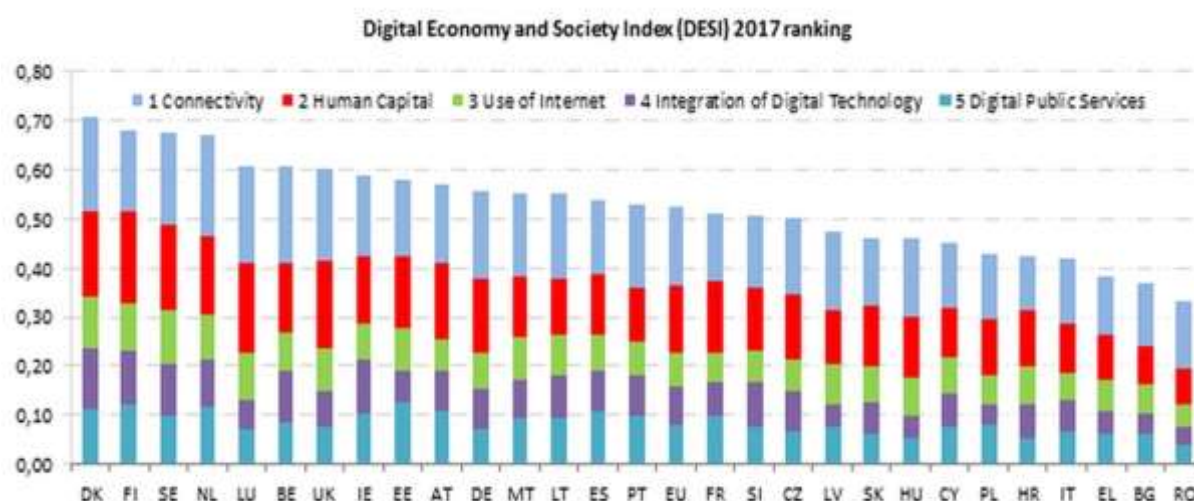
Digital competitiveness is one of the new and very used terms when we talk about today’s economy, along the classic term of competitiveness which is well known as a key determinant for growth and jobs.

At the European level, the evolution of the Member States in digital competitiveness is measured and tracked by The Digital Economy and Society Index (DESI) and the results are annually made public in the Europe's Digital Progress Report.

According with the definitions of DESI from the Digital Agenda website, it is an overall index, calculated as the weighted average of the five main DESI dimensions: 'Connectivity', 'Human Capital', 'Use of Internet', 'Integration of Digital Technology' and 'Digital Public Services'. Each one of the five main DESI dimensions is calculated as the weighted average of the DESI Sub-dimensions which in turn are calculated as the weighted average of the DESI Individual Indicators.

The DESI 2017 ranking is presented in Figure 2.

Figure 2. Digital Economy and Society Index (DESI) 2017 ranking

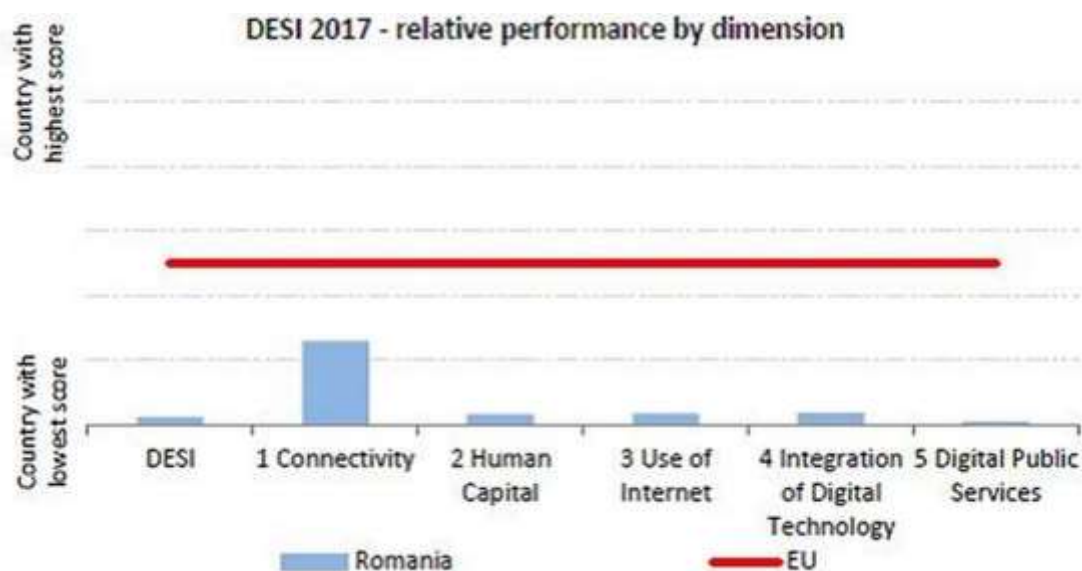


Source: European Commission, <https://ec.europa.eu/digital-single-market/en/desi>

As can be seen Romania occupies the last place in the ranking but the real problem consists in the fact that this happens despite the generous European framework dedicated to help Member States. In order to properly explain these results, we need to look at the evolution of the Member States since the democratization of the Eastern Europe. While several of Romania's neighbours moved quickly at governmental level towards the core functioning principles of the European Union, Romania's policy makers lagged behind. Therefore, crucial decisions like the liberalization of the economy, pragmatic public policies that answer real needs and using the technical know-how of experts in various fields, were postponed time and again. 2007, the year of Romania's accession to the EU was met with a level of unpreparedness which caused the slow and inefficient implementation of European policies.

In this chapter, through the comparative analysis between Romania and some of the better positioned countries on the European ranking, namely Denmark, Germany and Poland, we set to identify their digital strengths according to the five DESI dimensions. As was presented in the Introduction part of this paper, in the Digital Economy and Society Index (DESI) 2017 Romania occupies last place 28th, Denmark 1st place, Germany 11th place but well known as a digital industry promoter and Poland 23rd place, an Eastern European country with strong involvement in addressing new technological trends. Romania's place in the European rankings on digitisation by dimensions is presented as follow (Figure 3):

Figure 3. DESI 2017 –relative performance of Romania by dimension

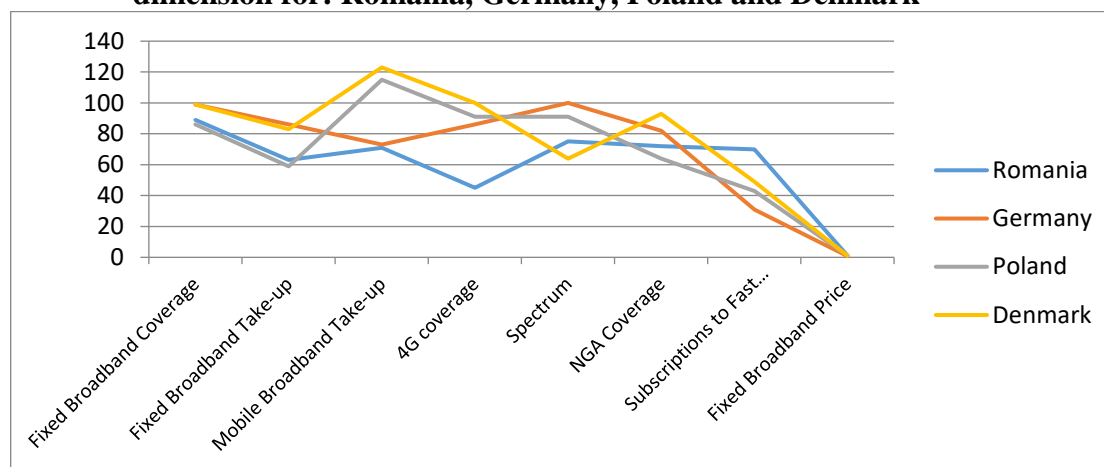


Source: European Commission, <https://ec.europa.eu/digital-single-market/en/scoreboard/romania>

For each dimension of the comparison, the values obtained by each country chosen for analysis, in DESI 2017 ranking, were used. The results of comparison for each dimension are the following:

a) Connectivity dimension. In the ranking of this dimension, Romania occupies rank 22, Germany rank 7, Poland rank 25, Denmark rank 4. The image of the Connectivity dimension in comparison between the four selected countries is presented in Figure 4.

Figure 4. The comparison between the value of the indicators included in the ‘Connectivity’ dimension for: Romania, Germany, Poland and Denmark



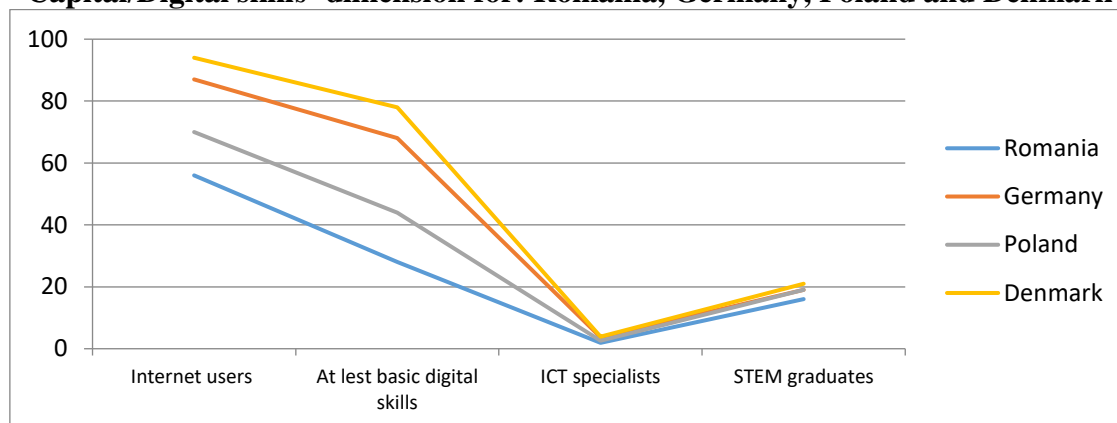
Source: Authors' own representation

Connectivity is the dimension for which Romania has the best ranking among all five occupying the 22nd place. This position is due to Romanian consumer preference for high-speed broadband, mobile and fixed point connections. Despite this position, the coverage of fixed and mobile (4G) broadband networks remains one of the lowest in the EU: coverage 45%, rank 28.

It should be mentioned here that connectivity is one of the indicators that mostly depends on the private areas of economy not the state public policies. Cable and internet companies have quickly covered the empty place left by the government, facilitating the urban sprawl of networks that soon offered a high standard of broadband connectivity. At the same time, it should be noticed that the rural area is woefully under covered at this time, though there are some initiatives to improve this aspect.

b) Human Capital/Digital skills dimension. In the ranking of this dimension, Romania occupies rank 28, Germany rank 8, Poland rank 21, Denmark rank 5. The image of the Human Capital/Digital skills dimension in comparison between the four selected countries is presented in Figure 5.

Figure 5. The comparison between the value of the indicators included the ‘Human Capital/Digital skills’ dimension for: Romania, Germany, Poland and Denmark



Source: Authors' own representation

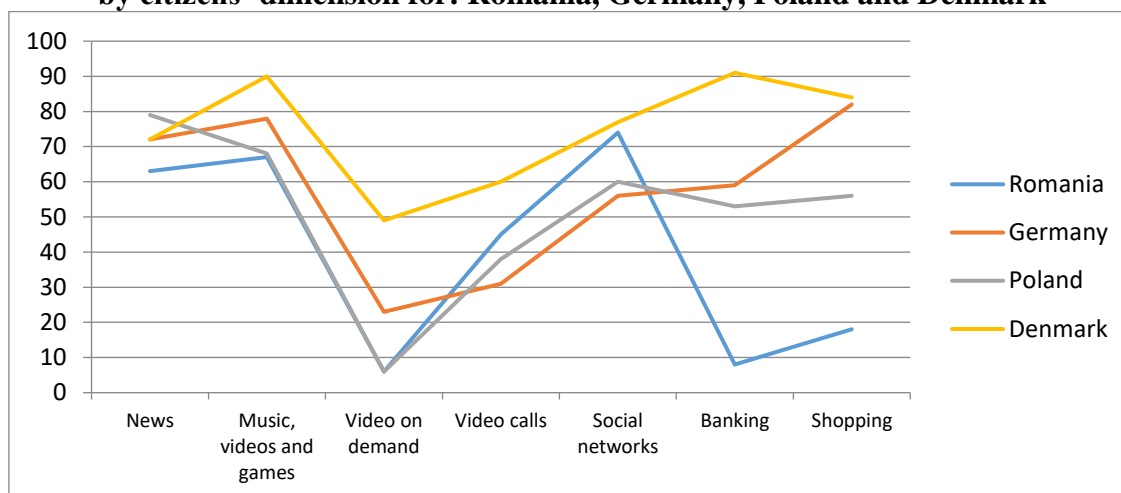
The ICT specialists and STEM graduates is a common problem. Romania has a 56% percent of ‘Internet users’ from the total population with a 28% percent with at ‘At least basic digital skills’. There is an obvious difference between Romania and Denmark which has a 94% percent of ‘Internet users’ with 78% percent with ‘At least basic digital skills’.

The small percentages obtained by Romania for this dimension reveal major weaknesses in the preparedness of human capital in the digitisation field, both in education and training. The responsibility for creating the framework for improving this aspect lies with the government. Taking into consideration the importance of this subject, a deeper analysis will be made in the results chapter.

c) Use of Internet by citizens dimension. In the ranking of this dimension, Romania occupies rank 28, Germany rank 18, Poland rank 24, Denmark rank 1. The image of the Use of Internet by citizens dimension in comparison between the four selected countries is presented in Figure 6.

Romanian citizens use the Internet in general for ‘News’ (63%), ‘Music, videos and games’ (67%) and ‘Social networks’ (74%). As we can see, these interests are common for all countries but the big difference consist in the interest of the three other countries in ‘Online banking’ and ‘Online shopping’, which also support the general economy. It is especially noticeable the high percent of Romanian citizens which use the Internet for ‘Social networks’ (74%), almost equal with Denmark (77%). At the same time we can observe the data about Poland which has almost the equal scores as Romania for the indicators ‘News’ (79%), ‘Music, videos and games’ (68%) and ‘Social networks’ (60%) but has a good score for online ‘Banking’ (53%) and ‘Shopping’ (56%) considerably higher than Romanian scores for Banking (8%) and Shopping (18%).

Figure 6. The comparison between the value of the indicators included in the ‘Use of Internet by citizens’ dimension for: Romania, Germany, Poland and Denmark



Source: Authors' own representation

The problems identified when analysing the third dimension ‘Use of Internet by citizens’, are mainly derived from the second one. The majority of people are unprepared for using digital tools in their own benefit. It looks like the only digital technologies which are actually used are those for entertainment, the other being reserved for ‘specialists’.

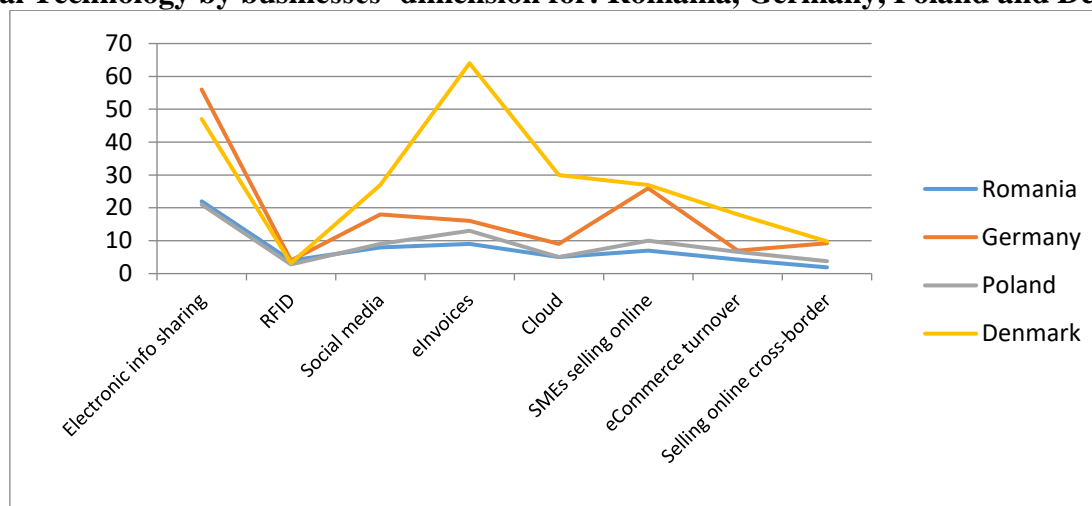
d) Integration of Digital Technology by businesses dimension. In the ranking of this dimension, Romania occupies rank 28, Germany rank 18, Poland rank 24, Denmark rank 1. The image of the Integration of Digital Technology by businesses dimension in comparison between the four selected countries is presented in Figure 7.

As we can see, the ‘Electronic informatics sharing’ is the only indicator where Romania has some progress in ‘Integration of Digital Technology by businesses’ dimension. The overall evaluation for this dimension is very low for Romania, the percent of ‘SMEs selling online’ or ‘Selling online cross-border’ positioned Romania at the last places in the ranking for these indicators, respectively rank 27 and rank 28.

Selling online is a new trend on boosting the growth of the European digital economy. This is supported by the Commission through the Digital Single Market Strategy (European Commission, 2015). At the Romania level, in supporting implementation of this strategy, there is ‘National Strategy on the Digital Agenda for Romania 2020’ (NSDAR) (Guvernul Romaniei, 2016b) approved by Government Decision no. 245/ 2015. The aim of the strategy is to ensure Romania's information and

communication technology (ICT) development at the level of the countries in the region and to establish the prerequisites of Romania's integration into the digital single market of Europe.

Figure 7. The comparison between the value of the indicators included in the ‘Integration of Digital Technology by businesses’ dimension for: Romania, Germany, Poland and Denmark



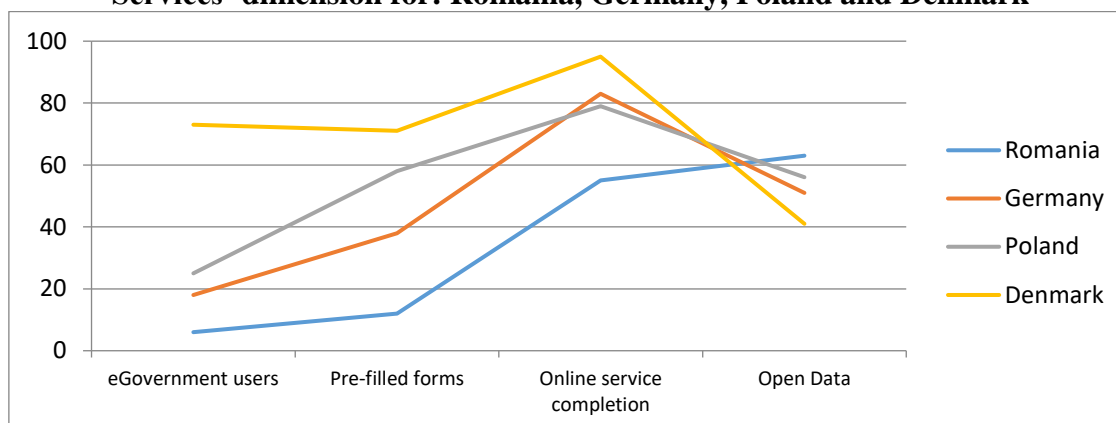
Source: Authors' own representation

The reason for the small percentages obtained by Romania for this dimension is, on one hand the low level of preparedness of human capital with digital skills and, on the other hand, due to a lack of trust of Romanian consumers towards the digital market.

e) Digital Public Services dimension. In the ranking of this dimension, Romania occupies rank 28, Germany rank 20, Poland rank 14, Denmark rank 4. The image of the Digital Public Services dimension in comparison between the four selected countries is presented in Figure 8.

Except Denmark which has a high percent of ‘eGovernment users’ (73%), all three other countries have a low level of use of eGovernment services (Romania 6%, Germany 18%, Poland 25%). Romania continues to occupy the last place in the ranking for this indicator and even more worrying is the fact that internet users percent which use this service decreased by 2 p.p. in 2017 compared with 2016 (from 8% to 6%).

The same last place in the ranking is occupied by Romania at the ‘Online Service Completion’ indicator. A little bit of progress was made for ‘Pre-filled forms’ indicator, placing Romania on the 27th place compared with 28th place in 2016. The surprise at this dimension is coming from Poland which almost surpasses Germany in all aspects.

Figure 8. The comparison between the value of the indicators included in the ‘Digital Public Services’ dimension for: Romania, Germany, Poland and Denmark

Source: Authors own representation

The main reasons for Romania's position are the low level of preparedness of human capital with digital skills, the lack of strategic foresight and the lack of trust of Romanian consumers. This lack of trust was strengthened, for example, by the lack of competence by the government in the domain of online tax payments and issue of various certificates by the public authorities. Though promoted for years there still is a distinct lack of possibilities for Romanian citizens to pay their taxes online, to obtain various papers like records, certificates and such which are usually requested by public authorities from other authorities and instead of using digital means to transfer them, they impose on the citizen to basically take it from one place to another in printed form.

4. Comments of results

The 22th place occupied by Romania for Connectivity dimension concludes that Romania has a good base for digital development, but this is not enough to compensate the gaps for the others four dimensions.

Analysing the result of the comparison for all five dimensions, as it can be easily seen, it shows that the main problem is coming from the second dimension 'Human Capital/Digital skills'. The strengths and weaknesses identified in this dimension have a decisive influence on the performances recorded in the other four dimensions.

The analysis of the second dimension reveals major weaknesses in the preparedness of human capital with digital skills, aspect reflected by the 56% percentage of 'Internet users' and by the 28% percentage at users with at 'At least basic digital skills'.

Also, after the analysis of the digital skills indicator (all individuals) and compare countries, available at the digital-agenda-data.eu/charts, the results for Romania, in percentages, are: 40.5% ‘No digital skills’, 31,8% ‘Low digital skills’, 19,1% ‘Basic digital skills’, and only 8,59% ‘Above basic digital skills’.

According with the Digital Agenda Scoreboard, the definition for ‘Digital Skills Indicator (all individuals)’ is:

Persons that have been using internet during last 3 months are attributed a score on four digital competence domains: information, communication, content-creation and problem-solving, depending the activities they have been able to do. The scores are basic, above basic and below basic. Individuals not using internet are classified without digital skills. The four digital competence domains are aggregated in four logical groups.

The level ‘Basic’ is defining as “Individual having at least "basic" skills in ALL the four Digital Competence domains included in the index: information, communication, content-creation and problem-solving, but no more than three above basic”. Unit of measure: percentage of individuals

This opinion about the very low level in preparedness of human capital with digital skills is also verified by comparison with the data about the education and training in Romania (European Commission, 2016c) (Table 2).

Table 2. Education and training Monitor 2016 -Key indicators Romania

ET 2020 benchmarks	Romania		EU average		
	2012	2015	2012	2015	
Early leavers from education and training (age 18-24)	17.8%	19.1%	12.7%	11.0%	
Tertiary education attainment (age 30-34)	21.7%	25.6%	36.0%	38.7%	
Early childhood education and care (ECEC) (from age 4 to starting age of compulsory education) Data refer to 2011 and 2014	86.4%	86.4%	93.2%	94.3%	
Proportion of 15 year-olds with underachievement in:	Reading	37.3%	38.7%	17.8%	19.7%
	Maths	40.8%	39.9%	22.1%	22.2%
	Science	37.3%	38.5%	16.6%	20.6%
Employment rate of recent graduates by education attainment (age 20-34 having left education 1-3 years before reference year)	70.2%	68.1%	75.1%	76.9%	
Adult participation in lifelong learning (age 25-64)	1.4%	1.3%	9.2%	10.7%	

Source: Authors’ own representation based on dates from European Commission, 2016c

The ‘European Innovation Scoreboard’ (European Commission, 2016d) and the OECD ‘Programme for International Student Assessment’ (PISA) (OECD, 2016b) are reflecting the same weaknesses. The PISA is testing the skills and knowledge of 15 year-old students, measuring their reading, math and science literacy. The highest performance in PISA tests was obtained by Romania in 2012 with 445 score in Maths, 439 in Science and 438 in Reading. The scores obtained in 2015 are: 444 (Maths), 435 (Science) and 434 (Reading). Romania has been participating in PISA tests since 2006. The OECD 2015 averages are: 490 (Maths), 493 (Science) and 493 (Reading).

As the Government is responsible for education and training, the main cause for this issue is represented by the lack of a coherent and sustainable strategy in these fields. Private initiative should be encouraged to improve this aspect, taking into consideration that until now, the digital transformation was promoted by private sector rather than by public policies.

The main recommendation of OECD (Kitchen *et al.*, 2017) for Romania after ‘Reviews of Evaluation and Assessment in Education –Romania 2017’ is referring to the strengthening of strategic planning through developing a long-term national strategy for education. Also the education strategy mirrored in a new legislative approach has to be linked to the wider national development objectives.

The 2016 ‘Competitive Romania’ strategy, in the Education chapter, states that “The identified problems arise from the lack of a clear methodological framework for the implementation of the principles ...” (Guvernul Romaniei, 2016a, p. 16). The ‘Competitive Romania’ is a project for sustainable economic development which imposes the need for “... demonstrating political and societal consensus on the main areas for action in 2016-2020 that are necessary to put Romania on the path of sustainable economic development” (European Commission, 2017, p.14).

The consequences which derive from the low level of preparedness of human capital with digital skills can be severe, both at the individual and the national level. The main consequence can be seen in the Figure 1, the strategic analysis of strengths, weaknesses, opportunities and threats (SWOT) of the Industry 4.0, and concerns the possibility of falling behind this new industry. Also, in the first chapter ‘The need for digital skills’ are presented several resources which analyse the subject. We can mention here, as an example, the 2014 final report for UNICEF: ‘Cost of non-investment in education in Romania’ (Costache (coord), 2014) or ‘The High Cost of Low Educational Performance. The long-run economic impact of improving PISA outcomes’ (OECD, 2010).

Analysing the efforts Romania undertakes in this direction, we can notice one possible solution in the ‘Europe's Digital Progress Report’ (EDPR) 2017 (European Commission, 2016e, p.5). It mentions that the Romanian Ministry of Education and Research is preparing “some initiatives to

tackle this issue” in order to “increase the digital skills of the new generation”. At this time, there is a ‘Strategy of Education and Professional Training in Romania for the period 2016-2020’ (Guvernul Romaniei, 2015) approved by Government Decision no. 317/2016. The overall objective of the strategy is to develop a system of education and training adapted to the requirements of the labour market and the needs of the direct beneficiaries.

The current scientific studies offer many solutions and strategies in order to increase the level of digitisation in Romania but its success mostly depends on the policy makers. In the second chapter ‘New managerial strategies for new challenges’ we presented the new manager’s profile, “more flexible and agile”, applicable for both the private and public sectors.

The gap between digital competence and digital incompetence will probably be the main indicator of class divide in the present century. Only pragmatic and applied strategies can reverse this trend and these can only be directed by the government.

Conclusions

The main reason which motivated us to elaborate this study was the constantly low Romanian position in the DESI ranking in the context of global transformation through digitisation.

As we can see, the society and the economy are under major transformation due to the process of digitisation. Through SWOT analysis, we saw which are the benefits and which are the challenges of this process and we also saw the global risks it poses.

Thus, having regard the Romanian score reported to the digitisation risk and the global context mentioned above, we can easily conclude that Romania risks being left behind by this new revolution.

After completing the comparative analysis between Romania and some of the better positioned countries on the European ranking, we concluded that the main weakness of Romania, which prevents its climb in the rankings, is the low level of preparedness of the human capital with digital skills. This supposition was verified and confirmed by the actual status of the key indicators about the education and training in Romania and by the other evaluation reports in the field. For this issue we have identified the necessity of a new strategy, a long-term one linked to the wider national development objectives.

Also, we saw there are several studies and examples of strategies in the management field and the same about the digitisation process, on which can be built a successful development model. We have chosen for our subject of study, as a theoretical strategy, learning from the experience of the

better positioned countries on the European ranking. Identifying their strengths by approaching their strategies and policies and adapting them, can be a solution to address Romanian's weaknesses.

One of the common ideas in most governmental strategies involves the financing, through national and European funds, of requalifying workers in various outdated economic fields. Unfortunately this approach proved to be little bit more than wishful thinking in some areas. While the education system provides a relatively adequate framework for children and young adults to develop the needed digital competencies, the reality of the adult workforce make it a far more difficult proposition to basically change the fundamental approach to working in the modern economy.

Any state must encourage such strategies and measures that try to help adult workers to adapt to the new realities of the digital world. It is to be expected however that such changes will be slow and with a significant degree of failure. There are significant differences between member states in this regard, between various regions and also between urban and rural areas. Therefore, any economic measures taken in support of digitising industrial branches need to be supported by social measures that take into account the differences mentioned above.

However, until digital skills are a 'major priority' for Europe it is of vital importance that the policy makers from Romania adopt such a strategy that really responds to the identified needs and, at the same time, is in correlation with European framework. The future of the Romania economy and not only that will depend on this strategy.

This paper focuses only on identification, by comparison with the better positioned countries on the European ranking, of the main aspects which 'keep' Romania at the end of the European ranking regarding digitisation. The results can be used both by academics and by policy makers in order to find an appropriate solution for the identified issues. The causes and the optimal solutions regarding the future of the digitisation in Romania will be the subject of a new paper. Also, building on the foundation of this paper, an in-depth comparative analysis of the public policies from the countries chosen above, will constitute the object of the new study.

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Controversial Face of Europe in the Official Discourse of Georgia After Independence

Irakli CHKHAIDZE*

Abstract

Since the dissolution of the Soviet Union independent country of Georgia was faced ultimate challenges both in internal as well as foreign political spheres. Leader of the national movement and the first president of the Republic Zviad Gamsakhurdia was found victim of international isolation. Pro-European course of Georgia is connected to the presidency of Eduard Shevardnadze, former foreign minister of the Soviet Union, whose political project was to push Georgia to full membership of Euro Atlantic organizations. These tendencies became even stronger since 2003, after the “Rose Revolution”, under the government of the third president of Georgia Mikheil Saakashvili. In parallel with achievements on the way of Euro Integration anti-Western feelings were gradually emerged and strengthened in the Georgian public discourse. The successes in the pro-European politics and attempts to ratify the European legislative and constitutional norms were accompanied with protests supported by some public and political figures. The paper aims at analysing controversial nature of the process of Georgia’s European Integration with its under streams and flows what have been making the process complicated.

Keywords: Georgia, Europe, Official Discourse, West, Independence

Introduction

Georgia is among the countries to which identity crisis and exclusive nationalism posed serious problems at the dawn of independence, and determined political and social disintegration (Gachechiladze, 2011, pp. 330-332). The situation changed in the subsequent period and, in parallel to strengthening pro-European political aspirations, Georgian national project gradually acquired civil characteristics (Jones, 2006, p. 249; Chkhaidze, 2016, pp. 144-157). The paper analyses the post-Soviet experience of the country in terms of Europe’s symbolic as well as real role in the Georgian

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official discourse. Critical analysis of the period of time is crucially important at the given stage of social development.

Since the late 1980s independence was the ultimate purpose for the national movement emerged in the Soviet republic of Georgia. After achieving the goal and gaining sovereignty in early 1990s, building of independent democratic state represented as the crucial challenge for the Georgian society. In the process of deconstruction of the Soviet system Georgians started looking for new identity construction and place of the country within the international system. From the time the idea of Georgia's European origins and tight relations to the West were broken into the Georgian public and academic discourse (Coene, 2013, pp. 77-80). The "Europeanness" still plays one of the key roles in Georgian identity discourse, but attitudes towards Europe are not unequivocally positive. Following the process of Euro Atlantic integration on the political level, featured as the major message of the Georgian national project, fear and mistrust of Europe (and of the West in General) eventually conquered the part of the Georgian society. Some groups of the Georgians people jeopardize the West, but the "Western devil", unlike the past time, threatens not the great "Soviet motherland" but centuries long traditional, Orthodox Georgian country.

The paper tries to explore the two separated as well as closely interrelated tendencies in Georgia for the short period of the post-Socialist independence. The study of identity and nationalism is a new trend in Georgian humanities and social sciences. Many issues in this respect are still to be analysed with the use of modern theories and new methodological approaches (Smith, 2004, p. 5). There are only a few works that review the subject of our research from the above perspective. Despite having rich and diverse empirical material, most part of it is not systematized within certain theoretical approaches. This reality itself determines the importance of the issue of our research.

The problem analysed in this paper is a part of the recent history of Georgia. Processes that developed in the research period have largely determined the domestic and international political developments and also stipulated many achievements and failures of the post-Soviet Georgia. At the present stage of the country's development, it is vital to provide critical analysis of the way Georgian state has passed since independence. Analysing these processes from the perspective of identity Studies will be favourable for rethinking Georgia's past, as well as determining regional and international context of current events.

This investigation is based on the analysis of public speeches, addresses and interviews of political and intellectual elite, academic and journalistic works. Post-Soviet Georgian public discourse is a constructed phenomenon, which has been developed by the elite and has undergone

several transformations throughout decades from the dawn of independence. The main objective of this research consists in its analysis and keeping track of the dynamics.

1. Theoretical basis and methodology

The paper uses the instrumental approach to the research as its theoretical basis, according to which ethnic and national identities are flexible and changeable, their content depends on time and environmental changes. Instrumentalist theory relies on the idea that nationalism and ethnicity appear as a result of political, economic and social processes (Brubaker, 2006. p. 134). Important is the fact that an increasing number of modern-day Western scholars agree that such identities are social constructs (Coene, 2013, p. 77)

In order to comprehend empirical material the method of content analysis is considered to be the most relevant. While using this method, the research is interested in the particular aspect of the documents under investigation – specific social relationships reflected in them, the author's attitude to any given issue, etc. The paper analyses how the issues regarding Europe in the sources are treated, what are the main characteristics of the post-Soviet Georgian official discourse in terms of Euro Atlantic integration (Mayring, 2000).

2. Dawn of Independence: In searching for “Lost Glory”

In the late 1980s from the rubble of the Soviet Union Georgian radical national movement was emerged. The movement was greatly defined by the personality of its leader, famous Georgian dissident Zviad Gamsakhurdia. His reflections on the Georgia's past, present and future were mostly emotional and sacral then rational based current needs and necessities. In his understanding, Georgians had been oppressed for a long period of time and now the time for prosperity and glory of the people came out. Georgians should have taken the proper place in the modern world, which they had deserved as the permanent victims of the turbulent history. In his work “Spiritual Mission of Georgia” published in 1990 (Gamsakhurdia, 1990, pp. 8-9), Gamsakhurdia represents the mission of the country in restoring its historical function as a bridge between West and East. Gamsakhurdia's particular attention was paid on the issue of religion. According to him, Georgians played crucial role in development of Christianity. The stress on religious feelings coloured early Georgian nationalism with sacral sentiments shoving it to be tended to isolationism and exclusiveness. Such an exaggerated

vision of Georgia's role and lack of rationality hindered country's foreign integration and collaboration with international community (Coene, 2016. P. 31). Moreover, new political elite, consisted of former dissidents and leaders of national movement, was tended to look for rather enemies than friends. By their opinion, Georgia's aspirations to be flourished and glorified were under the jeopardy coming not only from the North (Russia) but also from the West. The members of newly emerged political establishment were trying to find out international conspiracy against Georgia. Western leaders, despite seems to be paradoxical, were represented as the major conspirators allied to Russia.

All the troubles of Georgia do not lead to Gamsakhurdia. He emerged in extreme time, characterized by economic collapse, state fragmentation and political polarization. As famous researcher of the Caucasian issues Stephen Jones mentions, Gamsakhurdia like many third world leaders was a product of Imperial system. Although bitterly opposed to Soviet structures and values, he was cast in their likeness (Jones, 2013, 53). This sounds true regarding tolerance towards opposition, lack of ability to build the state on the base of wide consensus as well as not real but virtual threats coming from the West and threatening Georgia's traditional values like religion, family system, morality etc.

From the period dual perception of Europe was rooted in the Georgian official discourse – traditional, “civilized”, old, morally sustainable Europe which we belong to VS contemporary conspirator, depraved Europe without moral standards. Absence of alternative political visions and debates, and fear of conspiracies and plots led the former president of Georgia to ethno-populism. His rhetoric called for patriotism, sacrifice, protection of little man against the powerful, exclusion of outsiders, and the search for enemies.

Gamsakhurdia, naively, believed that Christian Georgia from ancient times has been the part of European civilization, and this gave Georgia a place at European table. “We Georgian have always had a European orientation”, he declared, “We want to be part of common European home”. Muslims, on the other hand, were the classic “other, a threat to Georgian cultural survival. Gamsakhurdia envisaged the West as a new patron for independent Georgia, but in August 1991, after president Bush's speech to the Ukrainian supreme Soviet, which pointedly condemned “suicidal nationalism based upon ethnic hatred” and offered US support for Gorbachev's draft Union treaty, Gamsakhurdia accused Bush of supporting communism, tyranny, and mock reforms”. Instead of seeking Western Patronage, he turned to regional support. He promoted the idea of common Caucasian civilization and proposed a Caucasian People's Forum. He developed especially close relations with the North

Caucasian countries and in the end fled his life to Chechnya after the coup 'D'tat against his government. Resistance to the Western countries supported Georgia's isolation and hindered international integration. By the opinion of Stephen Jones, the absence of Western support was crucial to the Georgian elite's disillusionment and the president's political demise (Jones, 2013, p. 68).

Following the search for the Georgia's place in the civilized Europe, Gamsakhurdia differentiated and even opposed two faces of Europe. The approach, whose one of the pioneers was Gamsakhurdia, still plays major role in the Georgian society's attitude towards Europe. This dualism clearly revealed in the appeal sent by the former president to the Georgian TV from exile, in 1992 (Gamsakhurdia, 1992). In his statement, he discussed Georgia's Western orientation. Gamsakhurdia denied accusations about his non-Western and isolationist politics. Former president confirmed his aspirations to Caucasian unity but, in his opinion, this would not hamper European integration. He condemned western world what meant "pornographic and horror movies, gangsters heroism", Western way of life, begging for money and credits in the West, suspicious political agreements with the adventurist Western politicians, their invitation to Georgia and selling to them country's natural and fossil resource, resorts, industrial objects etc". "Instead of this, Western culture, civilization, art, political thoughts, philosophy, social and legal systems are utterly familiar and close to us", so adoption of these values and building democratic society on the base of them is the key paradigm for our orientation, he declared.

In the letter the unique role of Georgia in synthesis of Western and Eastern world is particularly stressed. The reflections expressed in the appeal distinctly represent Georgian mainstreams at the dawn of independence. Political elite was a victim of emotions caused by achieving the sovereignty. Attitude to Georgia as an oldest European country prevailed over the society in the time. The people did not think to do much for the European integration because Georgia and the whole Caucasus itself is Europe. Georgians had to find their ancient ethnic, cultural, and spiritual traditions which laid foundations for the all Western and Eastern worlds. 'The Caucasus is a cradle for all civilizations; we do not confront foreign orientations but express our self-consciousness and identity'.

The distinction between spiritual, civilized, moral in contrast to depraved, wicked Europe has been pursuing Georgia's independence for the last decades.

3. Parallel Process: Official Pro-European Politics VS. Anti-Western Discourse

On 7 March 1992, former foreign minister of the Soviet Union Eduard Shevardnadze returned to the Georgia and led the country to post-Soviet transformation. During his term, President Shevardnadze's course of foreign policy sharply swerves to the West. Relationships with the European countries became stronger.

Given the intricate relations with Russia, Georgian government deepened cooperation with the West even more. Along with practical steps taken on the way to European integration, pro-western rhetoric also became stronger from 1996. Shevardnadze saw establishing close relationships with the West as the only direct way out for Georgia, having been bogged down in civil war, aiming to establish statehood. In 1999 Georgia became the member of the Council of Europe. This fact can be considered one of the most significant achievements in the post-Soviet period of independent Georgia, the step it made towards European integration. The head of the Georgian Parliament Zurab Zhvania, in his historic speech at the Council of Europe said: "I am Georgian, and therefore, I am European". Later this utterance was turned into a certain motto of Georgia on the way to western integration. (Chkhaidze, 2016, pp. 106-110)

Pro-European political course of Georgia represented as the drive for civic transformation and replication of Western legislative system. Along with building up state institutions, Eduard Shevardnadze's government passed the Law on Citizenship anew, on 25 March, 1993. Adopting this law, which was explicitly of liberal character, the government took into consideration the existing ethno-political situation in the country and granted citizenship to all inhabitants of Georgia. The law did not envisage such qualifying demands as the knowledge of the state language and the country's history, for instance. From the point of view of liberalism, the law on citizenship in Georgia was much more liberal than in other European democratic countries (Jones, 2013, 224).

The second most significant act, which determined the inclusive and civic character of the Georgian national project in its final form, is the Constitution of Georgia adopted on 24 August, 1995. The preamble of the Constitution reflects Georgian citizens' will to establish democratic social order, guarantee universally acknowledged human rights and freedoms and strengthen state independence and peaceful relations with other nations. After adopting the law on Georgian citizenship, the issue of citizenship occupied one of the central places in the 1995 Constitution. Consequently, official state policy of Georgia finally switched on to the track of civic nationalism. In terms of adaptation to the western legislation, one of the most crucial facts was the law adopted on 14 January 1999, according

to which ethnicity category was removed from the identity cards of citizens of Georgia (Reisner, 2010, 158).

Since the “Rose Revolution” in 2003, civic transformation of Georgian identity discourse and the process of European integration became even stronger. Under Presidency of Mikheil Saakashvili Europe became symbolic part of an official discourse as well as mainstream of the foreign politics. The idea about Georgians as the oldest Europeans revived and being used as an instrument for drawing symbolic strings to Europe. The Dmanisi case of archaeological excavations is deserved to be stressed in this respect. An international team of archaeologists found 1.8 million years old human jaws on the territory of Dmanisi site (Eastern Georgia). Two of them were given Georgian names, **Zeza** and **Mzia** and have been reconstructed by artists to show how they may have looked. They have been represented as the first Europeans. Representatives of the political elite frequently use the case for international popularization of Georgia as an oldest part of European civilization (Georgian Journal, 2016).

“A nation is a project for the present and the future – a project that unites us beyond our political, social, religious, ethnic, or regional differences and characteristics. A nation is not an ethnicity and it cannot be only a common History. A nation, ladies and gentlemen, is a national project”, – this is a fragment from the president Saakashvili’s speech after the clash between the members of former president’s party “United National Movement” and the supporters of the new ruling party “Georgian Dream” led by the former Prime Minister Bidzina Ivanishvili on February 8, 2013. Georgia’s ex-president declared a course aiming at creation of modern Georgian nation-state based on civic nationalism. In the above-mentioned speech, Mikheil Saakashvili also presented main features of the Georgian national project: independence, sovereignty, territorial integrity, democracy, prosperity, Europe; he stressed interconnection of all these principles as in the absence of even one of them, the whole edifice can crumble (Saakashvili, 2013). It is obvious from the speech Europe has been established as one of the key features of the modern Georgian national project.

In the recent years, Georgian government has considerably succeeded in the official politics of Euro Atlantic integration - In June 2014, the EU and Georgia signed an Association Agreement, which entered into force on July 1 2016. On February 3, 2017 the European Parliament has voted overwhelmingly to approve visa liberalization for Georgia, paving the way for Georgian citizens to travel to the European Union's Schengen zone without obtaining visas.

Inconvertible process of “Europeanization” or “Westernization” in the official politics has been accompanying with demonization of Europe by the certain segments of the Georgian society even by

the some members of political elite. Major steps towards Europe especially adoption of legislative framework were clashed to resistance and, sometimes, huge protests by the part of the Georgian society. For example, the law regarding abolishment of ethnic markers from the ID cards of the Georgian citizens in 1999 was resisted by number of the Georgian people including members of the parliament. Head of the committee of immigration politics Guram Sharadze claimed “After the few years we will be unable to count exact number of ethnic Georgians among more than 80 nationalities residing on the territory. In case of losing our (Georgian) majority the name of the country may put under question. “We are the experimental polygon for cosmopolitanism” – he stated (Sharadze, 1999).

Some more or less influential figures in contemporary Georgia still publicly express their opinion about European values. One of the representatives of the business elite Levan Vasadze, like the first president of Georgia, differentiates good and bad Europe: “I am one of the devoted apologists of Europe and of the West, but it makes me sense that historic Europe is one and the culture in which it swims now, is the second. I have nothing common with the Europe where gay marriage is granted for.” “We will integrate into the Europe with our dignity or will not” – he declared (Vasadze, 2013). In his understanding, Georgia’s political elite should take neutral position. Making pro-politics is baneful for Georgia. This approach to the Georgia’s foreign policy reveals close connections to the political view developed at the beginning of independence.

Conclusion

The issues related to Europe occupied major part of the Georgian society’s mind after gaining independence. Analysing of empirical data enables us to separate two contrasted as well as interrelated tendencies dominated over the Georgian official discourse for almost whole period of independence.

In early time of the post-Soviet independence Georgian society was marked by the controversial understanding of Europe – old, “civilized” Europe with close cultural links to the similarly old and unique Georgia versus modern, immoral Europe with the secret intention to assault Georgians’ national identity. The period also characterized with the tendencies of “isolation” and alienation from the Western world tended to turn to the past where the great time was left.

Later on, this indistinct attitude to Europe was transformed into the distinctly opposed processes. On the one hand, Euro Atlantic integration canonized as the inseparable part of the

Georgian national project. That meant civic transformation of the country, adoption of European legislative and constitutional framework. This course, which resulted in the concrete successes in the way of Euro integration, drove Georgian political elite building the state according to democratic standards. On the other hand, political process in favor of Euro integration kindled anti-Western feelings in the part of the society. In the name of protection traditional values and morality, the people demonize Europe and propagandize jeopardies threatening the Georgian society.

The “European ball” is still rolling on the field of Georgian society. The game is going with the little advantage of pro-European force, but both teams are still far from the final whistle.

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Challenges of liberalization and democratization in Georgia: the case of the modern civic calendar of the country

Ivane TSERETELI*

Abstract

The case of Georgia's transformation through the analysis of a civic calendar demonstrates existing problems on the way of country's democratization. Its design in terms of national festivities and celebrations contradicts the declared course of the Georgian state, which is aimed at building an inclusive civic Georgian nation, as it is centered only at the Orthodox population of the country. The multi-ethnicity of the Georgian nation – the political and cultural role of national minorities in the Georgian state – is not reflected in the civic calendar of the state. Considering the popularity of the Georgian Orthodox Church among the Georgian society and its influence on the formation of public opinion, a range of challenges could emerge on Georgia's way towards democratization, as some aspects of the liberal ideology is termed as dangerous for the Georgian culture by the Georgian Orthodox Church.

Keywords: Georgia, calendar, democratization, transformation

Introduction

The last decade of the 20th century was the most complicated period in the history of Georgia, full of controversies. After the dissolution of the Soviet Union “unifying, all-encompassing Soviet identity became a thing of the past” The ruling elites of the post-Soviet Republics started to create new memory projects with the aim of introducing an entirely new historical narrative. This process itself appeared to be hard enough, since the Soviet legacy, however vague and ugly it might have been, was still deeply rooted in the present time of Georgia.

One of the effective ways to establish the historical narrative is to create places for remembrance. Pierre Nora notes that “realization of breaking away from the past is related to the experience of losing the memory” (Nora, 1989). This situation requires fixating and localizing the memory in concrete places where it can continue to exist.

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The civic calendar was chosen as a focus of inquiry for filling in the above-mentioned gaps, as calendar is an important realm of memory on the one hand, and a subject of constant change according to the shifts of political conjunctures on the other hand. Generally, calendar is a system of organizing days for political, cultural, social, religious purposes, but we intend to explore the change of design of a calendar in its form and content. In case of Georgia, this was and is a kind of ideological machine, with stories on events, which have been changing in terms of political and social transformation. Study aims to investigate extent of reflection of main line of political-cultural development of Georgia according to its main paradigm – building the multi-ethnic Georgian nation through the calendar.

Individual memory is formed as a result of interaction of individual and social groups. Collective memory is always socially determined as the perception of past is conditioned by the modernity. The constantly changing discourse of memorizing and forgetting is determined by political conjunctures. These changes can be traced through different narratives and memory places.

Calendar reflects, and at the same time determines the process of transformation of system and influences on development of chosen course of state. The concept of transformation could be considered as a process connecting past and present, which makes the tentative prognosis of influences of past on the future possible, whereas calendar is one of the most effective tools of its management and direction.

In our opinion, calendar is one of the crucial “mediums/areas” which reflects and stores oral traditions, important dates, as set by historians, etc. Calendar mirrors the process of re-evaluation of past and this has an important influence on the formation of collective memory. The dynamics of institutional memory and changes in political conjunctures pushes re-evaluation of the stored texts and information of calendar. Calendar is a plan for the entire year. It is a tool of time management, which differentiates working days and day-offs, highlights holidays and festivals, reminds biographies of important personalities. It is crucial as it constantly rotates important events across years – celebration of independent day, commemoration days of saints, kings or religious rituals, which is an important element for the formation and transformation of collective memory.

1. From Soviet to a New Reality

The last decade of the 20th century was the most complicated period in the history of Georgia, full of controversies. After the dissolution of the Soviet Union “unifying, all-encompassing Soviet

identity became a thing of the past”. The ruling elites of the post-Soviet Republics started to create new memory projects with the aim of introducing an entirely new historical narrative.

In the age of colonialism, the established opinion among Georgians on being a tolerant, patriotic and a united nation was put in doubt by the post-Soviet life, which has entailed nothing but civil wars, bloodshed and uprisings for Georgia of those times. Georgian people had no guarantees of protection and security, which naturally caused the chaos and inner tensions. There was an obvious crack in the national identity. The Georgians did not have any experience in consentaneous fighting against colonialism. The absence of state institutions and common values prevented the state from setting democratic order acceptable for all, which exacerbated the situation even more.

On the 9th of April 1991, Georgia adopted the Act of Restoration of State Independence. This was a transitional period in the political history of our country, which had overcome the totalitarian regime and now it had to struggle for building a democratic state. This process itself appeared to be hard enough, since the Soviet legacy, however vague and ugly it might have been, was still deeply rooted in the present time of Georgia.

On the 14th of April 1991, the Supreme Council of Georgia elected Zviad Gamsakhurdia its first President. Shortly after he came to power, he immediately restored the flag of Georgian Democratic Republic (1918-1921), the anthem and the coat of arms. His government supported nationalization of education. He paid great attention to religion and language since he associated them with the statehood. In Gamsakhurdia’s epoch, the foundation was laid for restoration of the past glory and old traditions, and that is why the first thing they did was to restore national symbols, holidays, Georgian street names and later on, these trends were spread in all spheres of the political life (Jones, 2012, p.84).

Stephan Jones considers that “Gamsakhurdia was an effective revolutionary, but an ineffective builder of the state”. He placed the emphasis on national attributes, on which basis he removed the term “Soviet” from the Constitution. Gamsakhurdia failed to establish institutional structures relevant to the policy, he did not have well-functioning government machinery, nor the plan for economic reforms or the guarantee of the supremacy of the law. It was impossible to build a democratic state with just public support. Gamsakhurdia’s inability to form a stable state was due to: 1) “Post total destruction” legacy as Alexander Motyl calls it. 2) “the problem of “Statehood” (it was disputable who belonged to a new state) and 3) Gamsakhurdia’s weakness as of a leader (Jones, 2012, p.90-91).

On the 6th of January 1991, the President and his government left Tbilisi. Military council headed by Jaba Ioseliani and Tengiz Kitovani, who had defeated Gamsakhurdia’s regime, took over

the reins, dismissed the Parliament and abolished the existing Constitution. They branded this process as a “popular revolution”, which in reality was a coup d’état resulting in civil war. Georgia was seized by chaos. Economic crisis, pillage and ravaging of armed persons reached the peak. There was a total lawlessness in the country.

Soon after the presidential power went into the hands of the former Soviet official, Eduard Shevardnadze, who arrived from Moscow at the request of the Military Council. Georgian population pinned their hopes on his pro-western and democratic ideas. However, Shevardnadze’s government failed to establish a flexible state mechanism to achieve the civil accord. Supremacy of the law, justice and equality were completely ignored. Energy crisis, poverty and unemployment became insurmountable problems. Former communist officials held the top positions in the government. Bribery and corruption were widely spread in all government structures. (Janelidze, 2009, p.234)

Under totalitarian regime, historical memory of Georgia was adjusted to the forgotten and altered Soviet system and ideology, especially to the history of Georgian Democratic Republic (1918-1921). Political elite, who came to the power after the “Rose Revolution”, set their foremost aim to bring this history to the foreground and show the real face of the criminal Soviet regime. In view of this, the modern “memory project” represented Russia as an occupant and aggressor, which served the basis for the reinforcement of Georgian national identity. Post-revolutionary government had decided to cut off all the links with the past and minimize its legacy. It was essential to establish a western type of democracy, to set the right political course and mental revolution of the nation (Toria, 2012, p. 22).

It is noteworthy that the issues of collective remembrance and collective forgetting are intertwined processes, which was quite an urgent topic in post-Soviet countries. One very clear illustration of collective forgetting can be political discussions that took place regarding the removal of Stalin’s monument from the central square in Gori. For a large part of the population Stalin was a symbol of violence that played a decisive role in the establishment of a totalitarian regime in Georgia. Consequently, it was believed that he did not deserve to be eternalized by any monument in those fast progressing countries that had rejected violent rule and took up the path of democratization. (However, for the other part of the society, this did not mean the fight against Stalinism. The monument for them was not the subject of worship but rather a place of a historical memory, which could not have been expunged from the memory of those families who had served the Soviet regime (Toria, 2012, p. 24).

One of the effective ways to establish the historical narrative is to create places for remembrance. Pierre Nora notes that “realization of breaking away from the past is related to the experience of losing the memory”. This situation requires to fixate and localize the memory in concrete places where it can continue to exist. In this case, calendar, as a place of remembrance, is of great interest to me, where it clearly reflects political, cultural and social changes that have distinctly delimited the Soviet and post-Soviet spaces of Georgia from each other.

2. Re-evaluation of the past according to the calendar

In this case, calendar, as a place of remembrance, is of great interest to me, where it clearly reflects political, cultural and social changes that have distinctly delimited the Soviet and post-Soviet spaces of Georgia from each other. Along with gaining independence and political conjuncture, the public calendar saw a number of changes. For instance, Communist holidays were taken out and replaced by religious holidays bearing in mind national sovereignty. Hence, my aim is to analyze change of the context and based on communist ideology see which holidays were given priority in the Soviet Union and which holidays have replaced them in the post-Soviet Georgia.

After the traditional celebration of the New Year on the 1st of January, the 2nd of January, the so called day of luck, was declared a holiday. It was not a religious holiday but this day had been celebrated in Georgia for centuries. According to the tradition, Georgians believed that the whole year would pass in the same way as they would spend this day.

A new holiday that appeared on the Georgian calendar was the 3rd of March, which is now called Mother's Day. It was established by the first president of Georgia, Zviad Gamsakhurdia and in 1991 the Supreme Council of Georgia approved it. It had to be celebrated instead of the Women's International Day the 8th of March, however, this change has never been implemented and Mother's Day is celebrated independently. Zviad Gamsakhurdia's desire to substitute 8th of March with the 3rd of March may be connected with his initiative to create a new narrative, whose creator would be Georgian nation, which had always been engaged in the common historical and divine mission – in this case, it implies that Georgian, orthodox and independent people attached a special, symbolic importance to mother's cult.

9th of April – the day of restoration of Georgia's independent statehood appeared on the calendar. On the 9th of April 1989, there was held a peaceful demonstration to demand independence, which was brutally dispersed by the Soviet punitive forces. Innocent people fell victims to these

processes, 21 people were killed, and hundreds were wounded, poisoned and maimed. On the 9th of April 1991, two years after the tragedy, the supreme council of Georgia headed by Zviad Gamsakhurdia adopted the Act of Independence of Georgia. After that 9th of April was marked on the calendar as the day of restoration of independence, national unity of Georgia, the day of victory and commemoration of people who died for the homeland.

The most important holiday which appeared on the post-Soviet calendar was 26th of May - the day of adoption of the Act of Independence. 1917 bourgeois revolution in Russia resulted in the collapse of the monarchy and Empire's dissolution. In the same period, national council was created in Georgia, which ruled the country. On the resolution of the Council, Georgia was declared an independent republic on the 26th of May 1918. Marking of the 26th of May on the calendar demonstrates the transformation of memory which offers the society to rethink the past and analyze results. A new narrative appeared, offering the nation a new vision based on modern criteria. Independence and not the day of Georgia's joining Russia becomes of foremost importance for post-Soviet Georgia to which the monument was erected in the entrance of Tbilisi. That is why the memory spaces are created, to reevaluate the past, respond to modern challenges, create new heroes, holidays and so on.

After gaining independence the epoch of revival of religion starts in post-Soviet Georgia. The interest towards religion and its role has increased. Religious themes have stridently entered public and political reality. The first president of independent Georgia, Zviad Gamsakhurdia, was trying to bring back the lost traditions and glory of the country. He identified the Orthodox Church of Georgia with Georgian statehood and consequently started this process by restoring religious holidays, changing the content of the calendar and information contained in it entirely. The holidays that appeared on the calendar included most important days for Georgian Orthodox Church and congregation such as Christmas and Easter. (Good Friday, Easter Eve, the Easter Day and the following day of commemoration of the departed are also holidays).

19th of January – is the Epiphany. According to the gospel, twenty centuries ago, Joan the Baptist baptized Jesus Christ in the river in Israel on this day.

On the 12th of May Georgian Orthodox Church celebrates the day when Saint Andrew the Apostle came to Georgia. All churches hold liturgy and prayers to commemorate the saint.

St. Mary's day is celebrated on the 28th of August, the Dormition of the Mother of God. 14th of October marks the day when the greatest relic – the tunic of the Lord was brought to Georgia due to which the main temple of Georgia, Svetitskhoveli was built.

23rd of November is St. George's day who was broken on the wheel. St. George is the patron and the protector saint of Georgia and most churches in the country have been built in his name.

As it can be seen, most holidays on the post-Soviet calendar are related to religious festivals. Consequently, we can clearly see what a great role religion has played since Georgia's independence and how much it contributes to the social and political or cultural life of our country.

After the collapse of the Soviet Union, the country, bogged down in civil wars and poverty, was left with very few institutions that had survived and managed to develop afterwards. Once Georgia overcame totalitarian regime, it started development and the impact of religion gradually increased, which found the reflection in almost all spheres of people's life. However, the highest activity on the part of clergy can be felt in politics. Neither do political parties nor their leaders refuse to use religion for their political goals. Through constitutional agreements and other spheres of influences, the church has become one of the most powerful and rich structures in Georgia.

17th May is the International Day against Homophobia and Transphobia in the world. Non-governmental organization "Identity" decided to hold a peaceful march in the Freedom Square on May 17, 2013; however, the representatives of the Orthodox Church did not allow the LGBT activists to celebrate the event and dispersed the demonstration cruelly. After 2013, the Patriarchy tabooed the place and did not let the activists hold the event. In 2014, Catholicos- Patriarch of all Georgia declared 17th of May the day of protection of family unity. On this day the parish comes out into the street to march to Sameba church carrying icons.

17th of May caused great confrontations in the society. More than 12 000 citizens of Georgia signed the petition where they appealed to the president, prime minister and the head of the Parliament to punish the violent orthodox abusers who transgressed Article 10 of the Criminal Code of Georgia. However, the government never responded to it.

By introducing 17th of May as an International Day against homophobia and transphobia, Georgia clearly emphasized the country's political course, its aspiration to equality and democracy, its willingness to take care of the rights of sexual minorities like other European countries. Declaration of the 17th of May the Day of family unity by Patriarchy, as opposed to the International Day, once again emphasizes that the Church does not recognize Georgian legislation and it can even be said that it stands above the law. It is trying to "occupy" the secular space, which has to be absolutely free from religion. The church must not interfere in politics and impede the right course of development of the country.

Georgia is a secular country which cares about the integration of minorities into civil society, where there is no state religion and where no privileged religious or ethnic groups exist, where the freedom of faith and the idea of equality are declared in the Constitution. A good example of this is a different attitude developed since 2004, which could always be felt in president Mikhael Saakashvili's public speeches, where he emphasized the idea of equality, when he visited mosques, synagogues, attended various important religious festivities. This was a symbolic act which played an important role in changing the public consciousness and the development of the right outlook. Given that Georgia is not a mono-religious and mono-ethnic society; the reality in our country is reflected on the public calendar in a totally different way. To be more precise, the calendar, as a certain narrative, shows the contrary. From it, we cannot see that Georgia is a multicultural state based on the idea of equality, since it marks only Orthodox holidays. There are no other religious days in the calendar, for instance, Muslim holidays observed by ethnic Georgians, or Azeri population, who represent an important part of ethnic minorities. Their religious creed has not been taken into consideration. This is a very problematic issue and in my opinion, Georgia, which claims to be a tolerant and secular state, should by all means care about the protection of the rights of religious and ethnic minorities.

Conclusion

Soviet totalitarian regime managed to discredit individualism through its propaganda campaign and idolize the essence of collectivism. This system created a totally new, Soviet type of human being, who had permanently been fed with the idea that only the Soviet Union could provide them with a carefree and happy future. The ruling regime used collective memory for manipulating and pressurizing. Communist regime "uprooted" certain memories from the history of Georgia, and appropriated the rest to adjust to its system.

Georgia, which seceded from the Soviet Union and became independent, started to rethink its history. Along with the change of priorities, the desire to remember also changed, new questions were posed and important facts analysed. The change of political conjuncture was in the first place reflected on the public calendar, its form and content changed totally, the information it included fitted in with modern visions and the advantages of an independent state.

Memory is a live organism which social groups bear. That is why it experiences permanent evolution, it is either remembered or forgotten depending on the change of the political context.

The research has shown that the public calendar can be attributed one of the most important functions of being the space for keeping memories, since it is a live chronicle of social-political and cultural transformation. The observations have shown what Georgia was like in the Soviet Union and what process it had to undergo after gaining independence, what ideology the former public holidays served and which holidays they were substituted by in the post-Soviet Georgia.

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Bitcoin Intelligence – Business Intelligence meets Crypto Currency

Horia Mircea BOTOȘ *

Abstract

Bitcoin is a decentralized digital currency, which works peer-to-peer without a centralized repository, and is accepted as a form of payment all around the world. The “public ledger”, which registers transactions, is known as the block chain. A conventional ledger records bills and notes which are used by an organization, but in the case of Bitcoin these are simply data “entries” in the Blockchain sequence. Business Intelligence (BI), according to Investpedia, refers to the procedural and technical infrastructure that collect, store and analyses the data produced by a field of activities or by an individual company. BI is meant to take in all the data being generated by a business and present easy to digest performance measures and trends that will inform management decisions. The paper shows the BI steps and procedures that will help a Bitcoin user, owner or broker make the best decision possible in order to maximize their profits and financial security.

Keywords: Bitcoin, Business Intelligence, Crypto Currency, Intelligence, Security

Introduction

What is Bitcoin? Bitcoin is the name given by Satoshi Nakamoto in 2009 to the crypto currency he created. S. Nakamoto is remount for creating the original reference implementation for Bitcoin, and so devising the first Blockchain database.

In his 2009 paper S. Nakamoto says about the “coin” he designed: “A purely peer-to-peer version of electronic cash would allow online payments to be sent directly from one party to another without going through a financial institution. Digital signatures provide part of the solution, but the main benefits are lost if a trusted third party is still required to prevent double-spending. We propose a solution to the double-spending problem using a peer-to-peer network. The network timestamps transactions by hashing them into an ongoing chain of hash-based proof-of-work, forming a record that cannot be changed without redoing the proof-of-work. The longest chain not only serves as proof of the sequence of events witnessed, but proof that it came from the largest pool of CPU power. As

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long as a majority of CPU power is controlled by nodes that are not cooperating to attack the network, they'll generate the longest chain and outpace attackers. The network itself requires minimal structure. Messages are broadcast on a best effort basis, and nodes can leave and re-join the network at will, accepting the longest proof-of-work chain as proof of what happened while they were gone” (Nakamoto, 2009, p. 1).

So, the creator of the Bitcoin wanted it to be a state-regulated free currency that would need no maintenance, no additional costs and taxes and that gives its users anonymity. The use of Blockchain gave and gives all of these to the users.

This coin is limited by its protocol to 21 million units. This means that every few years the number of units is adjusted, and so is the currency's value. Bitcoin is using a fixed-point math to calculate the block subsidies. Each block introduces adds 50 new coins in the system. This quantity halves every 210,000 blocks. So in order to determine the Bitcoin number you will always be limited to the sum of a geometric series embedded in its algorithm (Nakamoto, 2009). The formula of determining this volume is:

Formula 1. Bitcoin currency volume formula

$$\sum_{n=0}^{\infty} \frac{210000 \times 50}{2^n} = 210000 \times 50 \times \frac{1}{1-\frac{1}{2}} = 21000000$$

As with every other currency, it presents a series on advantages and disadvantages that will attract or avert users. The advantages brought on this currency are: small tax applied to each transaction that does not change depending on the amount, smaller risks, transparent and neutral methods of determining the currency's value, high built in security, free use of the currency, and it cannot be stolen.

The disadvantages are: slow grade of acceptance, continuous development of the currency, price fluctuation each time new crypto currency appears, payments are irreversible, unconfirmed payments are not fully secured, the legal and fiscal problems can occur to user due to the fact that it's not state regulated.

Since 2009 state regulators have tried to find ways and means by which they could control Bitcoin, especially because it's effective anonymity and security system. But only in the beginning of 2017 they were able to make any real steps in this direction.

We will discuss in the next sections about Bitcoin's announced advantages and disadvantages. But we have to keep in mind that at the point of its launch, the currency was of interest to users because of its security and was not fancied by authorities that could not regulate or track it.

The paper is structured in 6 parts and the Final conclusion. We have started with the defining Intelligence in part 1 and explain the way in which Intelligence Adapted to Bitcoin in section 2. In part 3 we have presented the concept of Bitcoin Intelligence and how it is manifested, from the point of view of Data Analytics and of the Blockchain.

In chapter 4 and 5 we have covered the limitation and the uses of Bitcoin Intelligence, and how it can support business decision making. Then we have the sixth part that wishes to present the Bitcoin potential and the development capability that is has.

1. What is “Intelligence”?

The term *Intelligence*, comes from the military sector and is related to the decision support system. Business Intelligence (BI) is a solution that helps a company to gather information about the critical operations that take place during the operational stages. BI is done by means of: reporting applications and analysis tools. Traditional business intelligence is made up of paper reports and verbally provided information. “Modern” BI is using all the on-line provided information that can be accessed (Open Source Intelligence), free or in paid form.

Business intelligence can be defined as: “a technology-driven process for analysing data and presenting actionable information to help corporate executives, business managers and other end users make more informed business solution” (Rouse and Stedman, 2014). The actions included in this analysis are: Reporting metrics, queries, Scorecards, Operational analysis and monitoring, quantitative studies, data mining. Data modelling, Big data analysis, multivariate testing and many others.

At this point, it is scientifically relevant to point out that when referring to Business Intelligence you might also find references to Competitive Intelligence. This is because both facilitate the decision making process. But Business Intelligence and Competitive Intelligence are different. The first one is representative for internal data and processes, whereas the second one studies the level of the dissemination of information and is focused mainly on a company's competition. Thus Business Intelligence deals with a company's vertical, the sum of its activities, while Competitive Intelligence deals with the horizontal, it tackles the situation of the company in reference to its competitors.

If we take into account the fact that Satoshi Nakamoto created the first efficient crypto currency and first Blockchain data base, we can understand why applying all the Business intelligence protocols on Bitcoin can be of such interest. Doing Business or Competitive intelligence on this currency would prove to be a quite difficult task, as the mechanism of Bitcoin trading insures user's anonymity. So all the representative information for the competitors would be difficult to gather and if they could not be proven and verified, they would become absolute.

Next we will cover the basic stages of Business intelligence in order to shed light on the activities undertaken and resources needed in order to ensure an effective and representative outcome for the process.

The general steps of Business Intelligence are:

- Gathering the reporting requirements – this is the step during which we talk with the beneficiary and determine which are his needs in order to be sure that the structuring of the information gathering are meeting the client expectations (as understanding, but not as information quality as this cannot be assured at this stage)
- Breaking down the requirements into Business areas- this is the stage in which it is decided and planned how the information will be gathered and from what sources and for which Business Areas;
- Priorities requirements – this part of the information collection stage will have the analysts determine information limitations and will make them have a better time line for the process;
- Gathering and validating the data – in this stage we collect the data and then determine if the gathered information is of qualitative and quantitative sufficiency. If the information is not as available or of the expected quality the analysts will have to go back to the prioritization step in order to try and widen their data spectrum ;
- Analysis – this is the stage at which we canvass the information and we prepare the final report that will be handed to the client. This report will include all relevant information that can help the client to make his business decision.
- Present results-this step is also known as “Dissemination “and refers to the passing of the results of the analysis to the end user. At this stage the analysis of the data is ready and the data volume has been deemed acceptable. Now the client will be able to put into use the result of the Business Intelligence analysis.

In our analysis of Bitcoin, we will perform an empirical simulation of the before mentioned steps. This exercise want to help the reader understand this activities role in the decision making process of a company. The steps would be manifested as follows:

- Reporting requirements – the beneficiary would like to have an analysis on the evolution of Bitcoin transaction between 2011 and 2016, with as many details as possible.
- Breaking down the requirements – this task can be divided into several sections: transaction volume, transaction value, yearly transactions, geographical spread or important news in the industry.
- Prioritization – at this moment we determine which would be the most relevant lines of research for our client's interest. In our case we would suggest: transaction volume, transaction value and industry news.
- Gather and validating the data – this process will involve the study of all available source for information, be they official sources, or open-sources that give information about Bitcoin use. If the information is not gathered from reliable and certified sources, they will have to be confirmed so that it will not invalidate the analysis. The Intelligence professional may use sources as : Bitcoin.org, the Bitcoin Stack Exchange, Cex.io or Bitcoincgarts.com
- Analysis – in this stage is where the results of the previous steps will be put together, cleansed and structured in such a format that after a specialised professional handles the results show an answer to the beneficiaries' requirements. Apart from the data analysis preparation, professionals may apply statistical protocols so that they have data relevant information and have proper visual materials to present to the client. This may result in trends, polls, reasons for price change and all the connected visuals.
- Present Results – this final step represents the handing of the results to the end customer. This document will help them have a better image of the Bitcoin market, its developments and possible future developments.

The steps that have been chosen are rather restrictive, but have to take into consideration that Business Intelligence is a continuous practice and that change cannot be made at once, paradigm changes take time and have to be done and studied accordingly. Business Intelligence shows the state of the market at a given time and its results have a limited horizon.

In the case of Bitcoin, standard procedures and activities of Business Intelligence will prove hard to perform in the normal way, as transactions are hard to track due to the Blockchain protocol. What you can really do is an intelligence analysis of the Bitcoin market and to determine the possible

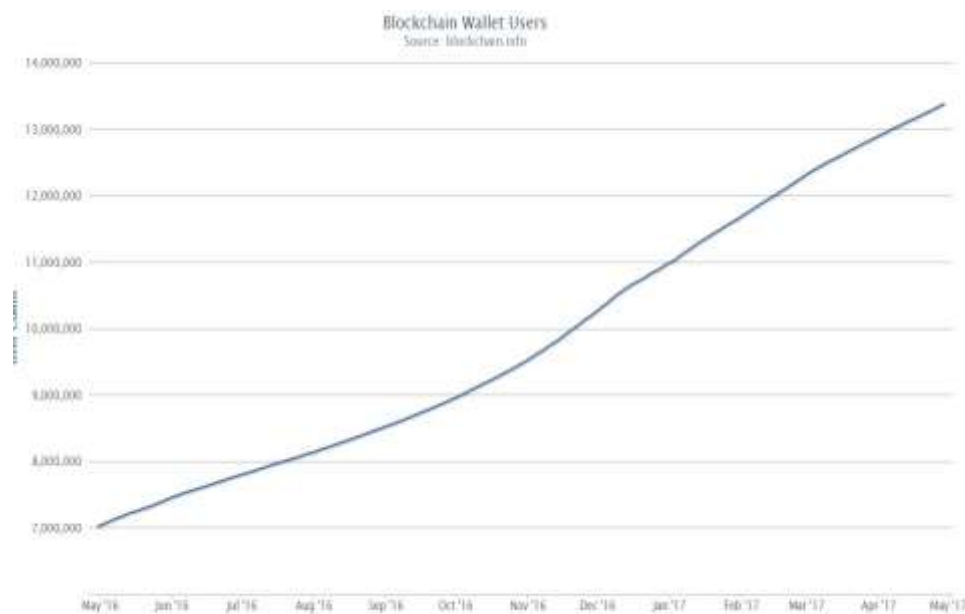
future developments of Bitcoin. This will be the process long and hard, but it will show new aspects of Bitcoin and the Blockchain, to both the Intelligence analyst and the end-user.

Business Intelligence will always show that Bitcoin will never have the characteristics of a Fiat currency. Fiat currencies are currencies without intrinsic value established as money by government decree (Mankiw, 2014). Its characteristics are: declared money by a government to be a tender (Rollins, 1917); the currency is both convertible by law to anything else, not fixed in value (J.M Keynes, 1965); and it is intrinsically valueless money used as currency by government decree (Mankiw, 2014).

2. Adapting to Bitcoin

At this moment, there are 315084 Bitcoin transactions a day, with a Market Cap of about 21,699,183,920 USD and a Hash rate of 3,528,859.20 TH/s. A Bitcoin Unit price is of 1320.98 USD.

Figure 1. Bitcoin Blockchain wallet Users April 2017



Source: Blockchain Wallet Users retrieved from:
<https://blockchain.info/charts/my-wallet-n-users>

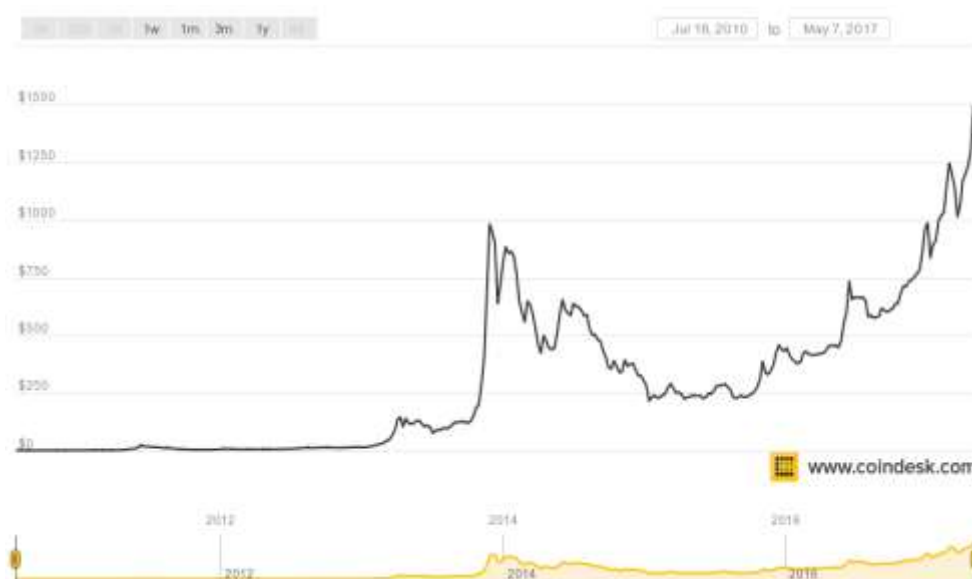
As Figure 1 shows, the Bitcoin wallets almost doubled over one year. What could determine such a rise in the interest of user?

One such motive would be the price rise. Figure 2 shows the price increase had by Bitcoin between July 2010 and May 2017. But if it follows the current trend, this crypto-currency might reach record high level during 2017.

Another reason why the price has went up is the fact that Japan is about to open several Bitcoin exchanges. According to a Nikkei report, the crypto currency industry Japan has grown with over 10 new exchange platforms, which are trading Bitcoin and other virtual currencies seeking to enter the market, Cryptocoins announced in May 2017.

The general political unrest may be another reason. But at this moment it is extremely hard to determine if this is a real reason or just speculation. What it known is that during political turning point, currencies tend to be a sign of hardship, and if this happens with Fiat-currency, chances are that they affect crypto currency also.

Figure 2. Bitcoin price 2010-2017



Source: CoinDesk, retrieved from:
<http://www.coindesk.com/price/#2010-07-18,2017-05-07,close,bpi,USD>

Over the year's user number raised each time the price the crypto currency was connected with a media event its price and interest grow. For example, in 2014, Bitcoin still being in its infancy, there were a series of controversies as the Mt. Gox scandal, the appearance of the first public systems were you could buy goods with Bitcoin, The Silk Road scandal, PayPal's partnership with Bitcoin, Microsoft accepting Bitcoin for payment for Xbox games and Mobile content, etc.

In 2014 after the Mt Gox scandal, The Guardian had an article stating that this scandal was one of the best things to happen to the currency (Moore, 2014) Mt Gox was the biggest and most important Bitcoin exchange outside the USA that disappeared over night. In this “disappearance” a volume of 774,000 bitcoins, worth 409 million USD went missing. This was not a very good thing to happen to a currency that was born corner of the internet that nobody knew existed. Bitcoin, a currency that is favoured by people that do not trust the government or the banking system, was now shown as not being insecure and not as advertised “a secure mintage”. Many of these rumours were connected to the fact that apart from those that did not trust the government, Bitcoin was also adopted and favoured by, a now-defunct, black market known as Silk Road.

Taking into consideration that the total existing number of Bitcoin is “hard-wired” in to the protocol to 21 million units, the 774,000 missing coins stood for a little under 4%. Not a big number in percentages, but it caused a ripple in the market, as the units were never “seen” again and they could not be traced.

But after this shock and the state action undertaken to mitigate the problems caused by Mt Gox, Bitcoin came out as a better and more powerful currency.

Another powerful jolt received was one of image, which came in 2013, with the controversies caused by the accusation brought on by the use Bitcoin for transactions on the Silk Road (Hern, 2013). The Silk Road was an online market place that was connected with online drug selling, money laundering and other illicit materials. From the confiscated documents, the FBI figured out that in these operations there was a larger number of suspects involved, one of them being Mt. Gox founder Mark Karpeles. One of the motives for which the Silk Road incident was of such importance is because FBI indicated in one of its reports that it Bitcoin and the Silk Road were used to plan, play and acquire the necessary for several international terrorist attacks.

At these accusations the Bitcoin community responded that the coin cannot be held responsible for the action undertaken by its users. Also the fact that the coin it a peer-to-peer currency based on an open source software could give any developer the possibility to create their own currency.

In 2015 Nasdaq picked up Blockchain Technology which gave crypto currency a big confidence boost. 2015 was also the year in which the US saw BitLicense (Roberts, 2015), thus making it possible for Bitcoin exchanges to be launched. All of these major events, correlated with investor and fund investments in Blockchain and crypto currency start-up’s showed that Bitcoin was on the rise.

So, if at this point the only intelligence used in Bitcoin was the Business Intelligence, in order to determine the action that a user could make in the market, the need for something more specialised

was needed. Thus, taking into account that at this moment Bitcoin was the best known crypto currency, the term of Bitcoin Intelligence started to appear.

Analysing now the advantages and disadvantages brought on to Bitcoin over the years, we can note that the main problem that is raised relates to security. The evolution of the intelligence world, with all of its diversity, took us in the light of the new age technologies. So the motive for which the Bitcoin is wanted to be regulated is concerning the tracking of financial resources that terrorists have and use it financing attacks, finding out where is the payment made from and which are the parties.

3. Bitcoin Intelligence

What would this Bitcoin intelligence cover? It would give its users insights about finance regulation and price evolutions, compliance with in the industry and news if the evolution of the Blockchain. But despite the fact that the Bitcoin is the world widest spread crypto currency, with a market cap that totals over 4.75 billion USD, the Bitcoin is still a network of computers that do mining and that harbour the security infrastructure.

In order to have a complete vision on the protocol of this business analysis, we have divided the search into two sectors: data analytics and the Blockchain study. Either of the two plays a special part in Bitcoin Intelligence, but the data analytics are a set of business and competitive protocols that are done in all economical analytic process, and are more relevant to our research, We must not forget that Blockchain is a part of Bitcoin already, thus needing less individual research.

Data analytics of the Bitcoin business are the same as for BI and are generally admitted by users as a resource for their relevancy to research, be it aimed at academics or practitioners.

3.1. Data analytics

Data analytics is the process of using specialised statistical or financial method to process data in order to get relevant information that can help make a useful, supported and relevant decision. There are a variety of facets and approaches to implementing Data Analysis, but in this paper we are referring only to that representative for the field of business decision.

In Data analysis to model and cleanse the data by means of statistics uses, thus you will find that is can be categorised as part of descriptive statistics, exploratory data analysis and confirmatory data analysis. The steps of the data analysis process are: determining data requirements have data

collection, process and clean the data, have an exploratory data analysis, determine the required data product and then communicate the result.

In the context of Intelligence, it is relevant to enumerate the barriers for an effective analysis. If the information is not concise and clear you may confuse facts with opinion, there may be cognitive biases and the final result can be erroneous. These all are barriers that are viable especially for Bitcoin, there isn't a general source of information that can be accessed in order to get relevant financial information as transaction volumes, OTC (Over the Counter) or standard Bitcoin to currency exchange, number unique users, number of miners (people that undertake Bitcoin mining) or number of mining stations, etc. Also there are no structured sources of information about a country use. Such an effort was made by the German state in 2013 to allow taxes to be paid in Bitcoin in order to have a feel of the number of users in Germany.

When analysing data we will need a series of software that will help in this endeavour. For Big Data analysis recommended software are: Alteryx, IBM (SPSS), Knime, Revolution R Enterprise, Oracle Advanced Analytics, SAP Predictive Analytics, SAS enterprise Miner Teradata Aster Discovery Platform (Loshin, 2015).

Data analytics we found out that it divided into two classes, tools that require coding and those that don't require coding. The non-coding solutions are: MS Excel, Trifacta, Rapidminer, Olikview, Tableau or DSS. Coding software used would be IBM Analytics, Matlab, Microsoft Power BI, Sisence, IPython for Data analysis, etc.

Each of these software's bring an added value to the table, but in the end determining the direction of the analysis is still de elemental part of the intelligence analyst.

3.2. Blockchain

Blockchain is a database that records the growth of the lost action for an activity, securing it from tampering and revisions. These record lists are also known as blocks and have a timestamp and a link to the last block they were connected to. The specific of the blockchain is that once a record is made, it cannot be altered. These blockchain databases are managed autonomously through a network that works peer-to-peer and a specialised times taping server (Iansiti and Lakhani, 2017).

When we speak about block chain we refer to the analysis of a Big Data Database. As previously stated the creation of Bitcoin formed the first Blockchain data base.

Blockchain is the decentralized database behind Bitcoin, that records all transactions, that synchronizes via the internet and is accessible to see to anyone that is part of the network. In this format, it can be public or private.

Blockchain became of interest to the international community after they have understood all the plus value the system has. It can be used in Financial Service (Trade, Commercial and Cross-border transactions), Insurance, Government activities, Supply Chain Management, Healthcare or in the Internet of Things.

When we analyse these 2 elements of Bitcoin, we observe that the basic structure and elements are the same as with any other subject of Business or Competitive Intelligence. The only factor is that, in order to have a comprehensive and relevant Data analysis, we will have to determine exactly the elements that are going to be of relevance of the information that the Blockchain can provide to work with.

4. Limitation of Bitcoin Intelligence

At the present Bitcoin Intelligence has a series of limitations that are primarily caused by the fact that the high degree of security does not allow for hardly any analytics to be done by those outside their structure. This is also a limitation of the paper, as transitioning this crypto currency does not give you sufficient information and access to do a large scale data analysis.

Other disadvantages that you have with Bitcoin Intelligence are connected to disadvantages of Bitcoin use. The technicality of the Bitcoin does not make it the go-to currency for investment, as you need a certain degree of knowledge to use it. The fact that this currency is untraceable is a double edge sword, as the action of its user can't be clearly traced and pin-pointed. This way an action of illicit nature can be identified with great difficulty. The compact nature of the Blockchain will make you need a pass way that is stored electronically, so if the wallet or the electronic support is compromised recovery is almost impossible. Due to the limited acceptance and the long process of getting traction, the market study and data access are difficult, for both state and private analysts.

The disadvantage that helps Bitcoin Intelligence is the volatility. The unpredictable manner in which the price evolves gives data availability to user, that can help the process of reverse engineering in order to give an idea to that field to verify and why would crypto currency be attractive to users.

All these limitations are normal and more than that, unavoidable. On the positive side, these disadvantages get smoothened as the currency gains better traction and acceptance raises.

5. Use of Bitcoin Intelligence

BitCoin has several field of use. The primary one comes from the purpose and functionality of Business and Competitive Intelligence. Thus investors and enthusiasts will have available information in the field. Searching for information has revealed that there are a high number of start-ups that activate in the field of crypto currency, blockchain or crypto currency intelligence.

One other use for the generated intelligence information is that it help states develop a better regulation for use of Bitcoin. Because of this we can figure out the friendly and non-friendly zone to use the currency.

For example, in the United States the Bitcoin friendly state would be Texas, Kansas, Tennessee, South Carolina and Montana; as unfriendly states would be Wisconsin, North Carolina, California, Pennsylvania and Florida. There are also some states in which the use of Bitcoin is difficult, as they have hostile laws. These states would be Hawaii, New Mexico, Connecticut, Georgia, New York, in which trading licenses are required.

Also in order to make it more friendly and use its capabilities, some countries have introduced an Exchange traded Fund to make Bitcoin accessible. This would open trading, but would let the country open to illicit trading or other such activities.

In Romania there isn't a clear legal status for crypto-currency, but Bitcoin it is said to have gained some traction with entrepreneurs that are active in the fields of Blockchain, Bitcoin or Bitcoin infrastructure.

One other use for Bitcoin Intelligence is in the fight against Cyber-crime. By using this intelligence, the international organizations are tracking crimes and financiers. Such examples are the 2017 cyber-attacks, which everyone knows asked their ransom in Bitcoin. Police organizations were able to determine infrastructure points that the cyber-terrorists used, but because of the complex nature of the Bitcoins Blockchain algorithm they weren't able to identify the men behind the attack.

Since its launch Bitcoin was closely followed by the national and international agencies because of its claim of connection to terrorism. Agencies as Interpol (International Police Organization), CIA (Central Intelligence Agency) or the FBI (Federal Bureau of Investigation) have been trying to identify the users, but were unsuccessful. Bitcoin Intelligence helped, from the perspective that they could not find the persons behind the activities, but they were able to identify the countries, regions and the activities paid for in Bitcoin.

This shows that this specialised form of Intelligence brings more to the table than just financial information about a crypto-currency.

6. Maximizing Bitcoin's Intelligence capacities

Business intelligence will help you get a better feel of Bitcoin, as it will give you information about this currency. Competitive intelligence will give you the possibility to see Bitcoin as part of the market.

Having the possibility to understand reasons of rapid appreciation (2017 price peak, for example) or depreciation, will help the user understand how other performing crypto currencies that are anchored in Bitcoin act on short and long term. For example a competitive and business analysis of Bitcoin in Japan will help you have a better idea on which of the ten new opening Bitcoin Exchanges in 2017, would it be better to use.

As with everything in business, timing and information are essential. Bitcoin Intelligence will help you have a better chance to maximize result and financial gain for the ones that are willing to gamble or are crypto currency aficionados.

But as Bitcoin evolves, we see that other currencies appear as is Ethereum, Litecoin or Zcash (Investopedia enumerates). These are all open-source currencies that have been developed on the Bitcoin model put forward by Satoshi Nakamoto, and because of this, they will always share characteristics with their "father". This is the element that will make any Intelligence or Analytics development made for Bitcoin to be applicable to any currency that shares its origin.

This will give Blockchain a competitive advantage to other cryptography protocols and because of this, it has registered a raise in use and development. Their uses in Bitcoin have made IOT, Fintech and other fields understand the advantage brought by it.

But as it can be used in protecting sectors of general interest, it can be used by terrorists and criminals to protect themselves and pay for acts that take place all around the world. One thing that Bitcoin and Blockchain gave us was a security element, an element that can be used to cover up unlawful acts as it makes them untraceable.

7. Conclusions

Let us be clear, Bitcoins may not replace the "Fiat Currency" anytime soon, but there has been a growth in the acceptance of crypto currencies around the world.

So, at this point, more than ever there is a need to better understand the Bitcoin, its market and users, its developments and the competitors. All of the above can result from a proficient and well thought out analysis of the market and players. We will always have to take into consideration that until a detailed set of regulation will not be accepted and implemented worldwide, the final result of our intelligence process may be incomplete. This is one of the reasons for which I would better recommend dividing this analysis into two separate elements. An analysis that is concerned with the aspects of Blockchain and another that would analyse the available data, in order to cover the elements available by means of Big Data Analysis.

Intelligence is and always will be a powerful element of security. Business and Competitive Intelligence by being at the core of a nation economic security and stability will have to adapt and enter fields as Bitcoin and Blockchain in order to protect its population from any threats.

Bitcoin is one the biggest future currencies, but we will still have to perfect it, as the Intelligence shows what it's needed in order for it to gain traction and have a wider scale of acceptance.

As the currency that it's analysing, Bitcoin Intelligence will need to evolve and to adapt to the future need of the market. But in the field of Intelligence there is no such thing as not adapting to the market or the client. The thing that changes is the volume of information available in the market that result from regulation that are put up, or the fact that the history of trading can give us a better understanding.

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Strategic vectors of transformational shifts in the national tourism system of Ukraine

Alla OKHRIMENKO*

Abstract

The article determines transformational factors, which influence a national tourism system (NTS) of Ukraine and proposes strategical vectors of its development. Research of the NTS as an economic system is a pre-condition for formation of strategic vectors of development. Transformational driving forces principally change scales, components, and proportions between external and internal factors of development of the NTS. Correspondingly, the mentioned processes objectively encourage modernization of the national tourism system and application of innovative managerial methods. The following Strategical vectors of transformational shifts in the NTS were grounded: 1) Safety of tourists and investors; 2) The normative and legislative framework of the NTS development; 3) Development of infrastructure of the NTS component; 4) Human resources development; 5) A marketing policy of the NTS promotion; 6) Ecological and cultural policies. Their implementation will improve efficiency and competitiveness of the NTS and the national economy.

Keywords: national tourism system, transformation, strategic vectors, globalization

Introduction

In the modern society, tourism transforms from a complementary factor that has facilitated the increase of potentials of national economies into a powerful system being an independent source of economic growth, economic diversification, involvement of a considerable amount of monetary funds, and formation of additional workplaces (Butler, 1980; Gunn, 1994; Sölter, 2000; Sharpley *et al.*, 2002; Babu, 2008; Scarpino, 2010; Ielenicz *et al.*, 2013). For instance, Sölter (2000, p. 51) mentions that “tourism is an independent system in our daily life and have interdisciplinary links”. Ielenicz and Simoni (2013, p. 31) express a similar opinion stating that “tourism should be regarded as a field with complex dynamic, geographic, temporal and unitary structure and functionality, and not reduced to a simple economic sector (“tourism industry”) producing revenue”. Simultaneously,

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“needless to state, already, the complexity and diversity of tourism industry are well acknowledged globally and as a production system, it involves manufacturing, services and many other intangible non-market inputs” (Babu, 2008, p. 44). Gunn (1994, p. 68) points out “development of tourism can fulfill goals and objectives more successfully if it is designed and managed in the context of the overall tourism system”.

All these facts prove the necessity of comprehensive consideration of tourism within the tourism system being a powerful, self-contained, ramified, inter-sectoral economic system of the national economy. It is worth mentioning that “the ability of ever-increasing numbers of people to enjoy travel-related experiences has depended, by necessity, upon the myriad of organizations and businesses that comprise the ‘tourism industry’. In other words, tourism has also developed into a powerful, world-wide economic force” (Sharpley *et al.*, 2002, p. 11).

It is important to notice that in 2016 international tourist arrivals continued their upward trajectory in their seventh straight year of above-average growth despite many challenges, reaching 1.2 billion. A comparable sequence of uninterrupted solid growth has not been recorded since the 1960s (UNWTO, Annual Report 2016, p. 5). Thus, tourism is a major category of international trade in services. In addition to receipts earned in destinations, international tourism also generated US\$ 216 billion in exports through international passenger transport services rendered to non-residents in 2016, bringing the total value of tourism exports up to US\$ 1.4 trillion, or US\$ 4 billion a day on average (UNWTO, Tourism Highlights 2017, p. 2).

Taking onto consideration the above-mentioned conclusions, the author may summarize that a tourism system “is an industry that aims at development and progress both in quantity and quality” (Saarinen, 2005, p. 168). Heterogeneity and dynamicity (Baggio, 2008; Jakulin, 2016) as well as vertical and horizontal relations are inherent to the tourism system. As any open system, it evolves under influence of factors of external and internal environments (Sharpley, *et al.*, 2002).

Nevertheless, “the twenty-first century has welcomed the tourism industry with a mixed bag; containing shocks, uncertainties and a promising future” (Babu, *et al.*, 2008, p. 1). Therefore, the academic community pays attention to research of changes in modern tourism systems (Saarinen, 2004; Butler, 2015; Matei *et al.*, 2014). Since such changes are of different origins, particularly they “need to be examined in the context of the overall global change in areas such as technology, affluence and political stability” (Butler, 2008, p. 55) and “as a by-product of multi-level institutional changes, technological progression, changing lifestyles, and perceptions and competition” (Babu, 2008, p. 178), it is necessary to summarize and group real reasons of these changes and,

correspondingly, to develop their strategic vectors directed towards development of tourism based on conditions of a certain region or country.

The tourism system is a heterogenic and dynamic system. Vertical and horizontal relations are inherent to this system. Like any open system, it evolves under the influence of factors of external and internal environment.

Therefore, the research of functioning and development of the tourism system at different levels (world, national, regional) should include the following actions:

- Firstly, it should take into account transformational trends of social development;
- Secondly, it should present instruments for determination and assessment of efficiency indicators, synergy of components, multiplication and cumulative effects of the national tourism system;
- Thirdly, it should become the basis of a concept and strategic reference points of the tourism system, which will contain certain managerial methods, instruments, indicators, parameters, and will form a framework and a mechanism of its activity.

These aspects actualize the necessity of solving a scientific problem regarding using concepts of national tourism system (NTS) transformations, which will most productively represent this process in the context of assuming flexibility and the equilibration for the increase of its social and economic significance as a sub-system of the national economy. In Ukraine, it is necessary to indicate parameters, patterns, and trends of the NTS, taking into account the influence of exogenous and endogenous environments for development of a progressive strategic vector of development.

An article purpose is determination of transformational factors affecting the NTS of Ukraine and development of strategic vectors of its enhancement.

Methodological approach. Research of the NTS as an economic system is a pre-condition for formation of strategic vectors of development. The main scientific paradigms of studying economic systems are the following:

- A neoclassical paradigm, which considers an economic system as a set of interrelated agents providing processes of production, distribution, and consumption; the main characteristics of the system change over time insignificantly; respectively, the system clearly reveals during a short-term period;
- An institutional paradigm, which states that streamlined and coherent common activity of agents is provided due to institutions (rules, traditions, norms, and restrictions), including a government as the main institution of a society;

- An evolutionary paradigm (Boiko, 2009) based on dynamic perception of the structure of a social and economic environment; unlike a state of equilibrium, this approach pays the main attention to research of a state of imbalance;
- A postindustrial paradigm (Babu, 2008; Butler, 2008, 2015; Tribe *et al.*, 2015) that encompasses rapid development of the scientific progress, radical changes of the structure of social welfare and employment, promotion of a system of the values, at the center of which is a human with desires for self-improvement and self-development;
- A paradigm of sustainable development (Burkynckyi *et al.*, 2011; Panasiuk, 2013), which is referred to as a coordinated global strategy of the survival of humanity oriented towards preservation and reproduction of natural populations on the scale being necessary for a return to scopes of the biosphere capacity.

The examined scientific paradigms affirm an assertion that the NTS is a component of the national and world economy. This assertion highlights dualism of the NTS, which is presented by the following peculiarities:

- Firstly, this system is considered as an object and a subject of the influence of political, economic, technological, cultural, ideological, mental, psychological, historical, geographical, and other factors;
- Secondly, the NTS is a sub-system of the national social and economic environment, which comprises other sub-systems, functioning and interaction of which conduce to asymmetry of its development.

Correspondingly, there is a need to research impact factors, to develop effective mechanisms of NTS functioning in accordance with them, and to counteract negative factors.

1. Theoretical aspects of transformational shifts in the national tourism systems

The author emphasizes that a national tourism system is a complicated, holistic, and integrated unit within a general national economic system, which consists of a set of subjects of tourism and complementary types of economic activity, markets, regulatory institutions, functioning of which is aimed at organizing an environment as well as production, exchanges, distribution, and consumption of a national tourism product and satisfaction of related needs.

The NTS is not stable, because it constantly develops. Changes or countering both positive and negative factors are inherent to the development. Activation of globalization and integration

influences, formation of single economic space, “a knowledge society”, development of information and communication technologies, orientation of interests and values of a society towards intangible assets, etc. are sources of these processes.

Transformation of economic systems has been subject to research of numerous scientists during a long period. In general, it is considered as a process of the change of system characteristics based on mechanisms of self-organizations and the external influence.

“Transformation” or a single-function process “structural shifts” is a process of adaptation (quantitative and qualitative adaptation) of economic system elements at macro-, mezzo-, and micro-levels and their interrelations in accordance with regularities of functioning and development of the market economy, which leads to formation of the qualitatively new structure” (Chernuk, 2011, p. 253). A concept “transformation” is frequently used in the process of studying globalization processes.

The transformational economy is a modern stage of development of the world economic system. It is characterized by the following main peculiarities: “globalization and urbanization; acceleration of rates of the scientific and technical progress; informatization processes; transformation of ecology into an economic resource; revaluation of old traditional resources and production technologies; change of state functions” (Savushkin, 2014, p. 51).

There are opinions (Ierokhin, 2002; Balabanov *et al.*, 2003; Kotyk, 2013) regarding indication of four types of transformation of economic systems within the academic community. They are strictly detected in the tourism system: structural, functional, organizational, managerial (see Table 1).

Table 1. Types of the NTS transformation

Structural: in the sectoral context	Functional in the territorial context	Organizational	Managerial
Change of system elements, its structure, and activity amounts	Change of the formed territorial structure, indication of growth poles, formation of clusters and territorial network structures	Re-profiling, diversification, formation of vertical market structures	Change of forms of organizing the economy: specialization, integration, concentration, transition to “flexible production”, et al.
			Widespread implementation of strategic business-planning, corporate management, logistic schemes and processes, and marketing systems

Source: own representation

Studying development of tourism destinations, a set of which forms the NTS, scientists (McLennan *et al.*, 2012, p. 5) prove that the transformational theory regarding tourism systems (destinations) is concerned with:

- The social dimensions of tourism destination evolution, where human institutions are prevalent and easily identifiable;
- Other tourism constructs of transformation have included individual product transformations;
- Multiple tourism products, such as a destination or region;
- Multiple tourism products, such as a destination or a country.

Taking into account comprehensiveness, problematic nature, and ambiguousness of assessments of such phenomenon as “transformation”, the author think that the NTS transformation contemplates taking on new features, forms, structures, and nature under the influence of heterogenic factors of exogenous and endogenous environments.

2. Manifestation of transformation factors in the NTC of Ukraine

Transformational driving forces principally change scales, components, and proportions between external and internal factors of development of the NTS. Such tendencies clearly reveals in the form of new components, organization structures and types of tourism, usage of resources, and activation of opposite processes (consolidation and transformation towards the decrease of large tour operators, approaches to government regulation and market self-regulation). Correspondingly, the mentioned processes objectively encourage modernization of the national tourism system and application of innovative managerial methods.

Transformational processes influence the structure of the very NTC. This process leads to involvement of an even more considerable amount of activity types in its functioning.

Tourism and national tourism system “is, among other things, a system of distinct activities and studies (knowledge), whose complexity is strongly influenced by both the variety of its components, and the level of influence of those, against the human concern imposed by social, economic and political conditions of the moment” (Ielenicz *et al.*, 2013, p. 25). Because the author suggests to divide the factors of the NTS transformation, according to various criteria, into the following groups: a) sources: internal, external; b) consequences of manifestation: general, specific, individual; c) an influence degree: main, secondary; d) the extent of inter-stipulation: independent, derivative; e) the

sense: economic, political, technological, social and cultural, ecological; f) scale: local, general; g) regularity of revealing: regular and random.

In addition to the mentioned grouping, the transformational factors in the NTS may have different capacity of manifestation and the influence, consequences, durability, etc. They are also characterized by a different reaction of counteraction and opportunities of implementation of some consequences. The author may figuratively imagine the influence of global transformational processes on the NTS as the change of their power, intensity, velocity, localization and transformation under the influence of current political, economic, mental, social, and cultural factors. Moreover, power of ones can decrease and power of the others, on the contrary, increase and intensify.

Grouping transformational factors of the NTS based on their intrinsic characteristics is most widely applied (see Table 2). Nevertheless, distinction of certain consequences of the mentioned groups of transformational factors is conditional to some extent.

Table 2. Manifestation of transformational factors in the NTS of Ukraine

Group of factors	Form of manifestation
Political	Decrease of a safety rate or absence of safety because of military actions
	Decrease of tourist flows
	A departure from “strict” state regulation in favor of more soft regulation
	Liberalization, decentralization, and democratization of state regulation
	Activation of the role of international tourism organizations
	Activation of a sustainable development policy
Economic	Changes of forms of business entities through processes of concentration and deconcentration
	Involvement of new components in tourism infrastructure (so-called “sharing economy”)
	Involvement of foreign investments
	Spread of transnational companies
	Formation of strategic alliances (aviation companies, hotels, and tourism operators)
Social and cultural	Extension of tourism activity scales
	Spatial location of enterprises
	Changes of values in approaches to organizing tourism from the standpoint of a consumer as well as an organizer
	Formation of a “global tourist”
	Formation of “fashion” for tourism
Ecological	Comprehensive consolidation and dialogue of all stakeholders
	The focus on ecological problems in tourism
	Activation of ecological tourism
Technological	Dynamic usage of global booking systems
	Technology standardization
	Dynamic development of innovations
	Spread of communications
	Appearance of new types of tourism (E-tourism)
	Activation of “informal component” of tourism (including tourism organized in the form of freelance).

Source: own representation

Nowadays, solving applied problems related to integration of the Ukrainian economy into the European Union, formation of its positive image, enhancement of opportunities for attraction of foreign and domestic tourists, optimal usage of the potential, effective government regulation and market self-regulation in this sphere, formation of new competitive advantages of the national tourism product, and involvement of investments is of considerable importance. Thus, they should be solved from the standpoint of complex scientific managerial vision, which will enable to indicate critical points, growth factors, reserves, and opportunities for methodology of the NTS management.

The NTS of Ukraine functions and develops under the permanent influence of various transformational driving forces, capacity, and consequences. These forces principally change scales, components, correlations between external and internal factors of the NTS development. These influences are especially notable in following process:

- The change of a state regulation model (a shift to European one) in the context of shifting the focus of influence on the NTS towards the economic sphere;
- Strengthening processes of decentralization, deregulation, integration, and consolidation, which, in turn, stipulate changes in its structure;
- Changes in the structure of tourism flows and the structure of demand and supply of a tourist product;
- Technological changes;
- Prevailing negative political as well as social and economic influences on its development.
- Since 2014, the NTS is influenced by negative factors:
 - Russian military aggression which endangers tourism system and potential tourists;
 - Economic challenges which: 1) affect the devaluation of the Ukrainian currency; 2) contribute to the risk of tourism business; 3) do not contribute to the implementation of a clear business planning; 4) create psychological barriers in the organization of tourist travel;
 - Social problems among which are an increasing migration, rising unemployment, reduced incomes, reducing demand for tourist services, leveling the human desire to travel;
 - Organizational problems relating to the lack of adequate and pragmatic public policies in tourism at national and local levels;
 - Problems of cultural and educational nature concerning the low level of service and more.

The impact of the mentioned factors led to the change of structure of entrance and internal tourism flows. In Ukraine, there has been a high rate of dependence of a tourism flow from the social and economic as well as political state of a small number of countries and their relations with Ukraine

until now. On average, citizens of ten countries has accounted for 85.0% of a foreign tourist flow (Russian citizens have accounted for 38.5% of them) until 2014. Over the last period, a situation has changed under the influence of the mentioned political factors. According to the data of the State Border Guard Service of Ukraine, the largest number of tourists have arrived in Ukraine from Moldova and Belorussia. The top 10 for amount of tourism flow includes also Russia (nevertheless, the flow has dramatically decreased by 58.0% compared with 2014) and Poland, Hungary, Romania, Slovakia, Uzbekistan, Turkey and Germany (that is to say, neighboring countries). On the other hand, a number of arrivals from countries traditionally belonged to a leading group of visitors of Ukraine has been reduced.

Thus, dependence of the tourism flow from an inconsiderable group of countries remains, but the structure has shifted towards involvement of citizens of neighboring countries. As for capacity of an entrance tourism flow in Ukraine, it has decreased by 48.0% under the influence of the mentioned factors.

The influence of the mentioned negative political processes may be illustrated with the example of the main indicative figures of the NTS development (see Table 3).

Table 3. Dynamics of the main indicative figures of functioning of the NTS of Ukraine in 2011 – 2016

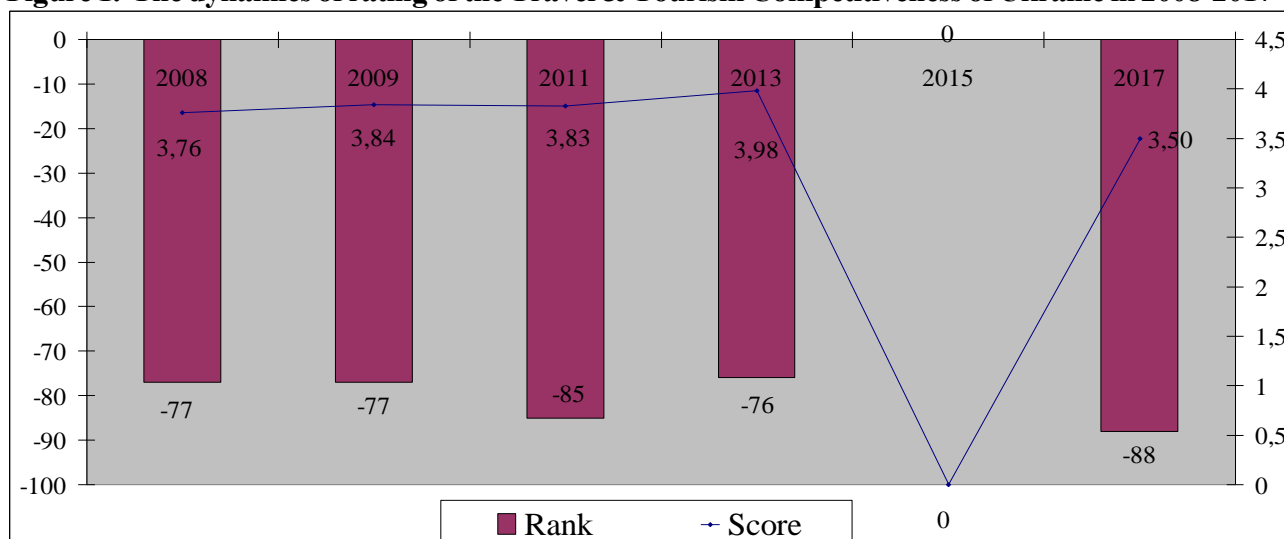
Category	2011	2012	2013	2014	2015	2016
Number of economic entities of the tourism sphere, units	4793	5346	5711	3885	3182	3506
Revenues from providing tourism services, million hryvnias	4937,7	6654,9	6496,8	5566,7	5015,3	11935,7
Number of tourists serviced by economic entities of the tourism sphere^{13**}, thousand persons	2199,9	3000,7	3454,3	2425,1	2019,6	2549,6
Number of foreign citizens, who have visited Ukraine, thousand persons	21415	23013	24671	12712	12428	13333,1

Source: State Statistics Service of Ukraine, Tourist activity in Ukraine (2017)

Taking into account the above-mentioned data, the author may conclude that amounts of the main indicative figures, which describe functioning of the Ukrainian NTS, have considerably reduced under the influence of the identified political factors since 2014.

This process led to deterioration of the global competitiveness ranking, according to which Ukraine has ranked 76 – 88 among more than 136 world countries during 2008-2017 (see Figure 1).

¹³ without excursionists

Figure 1. The dynamics of rating of the Travel & Tourism Competitiveness of Ukraine in 2008-2017¹⁴

Source: World Economic Forum, The Travel & Tourism Competitiveness Report (2017)

Correspondingly, there is a need to determine instruments, which are able to activate components of the NTS and their interrelations for achievement of synergetic, multiplication, and cumulative effects. All these actions are aimed at enhancement of competitive positions and the increase of activity efficiency.

2. Substantiation of vectors of the NTS development in Ukraine

Under conditions of modern transformational shifts, the main directions for modernization of strategic vectors of the NTS development are as follows: a) formation of a management model based on European standards; b) positioning the country as an authentic tourist destination with modern infrastructure; c) guaranteeing safety for internal and foreign tourists and investors; d) sustainable development; e) openness and accessibility.

In March 2017, The Cabinet of Ministers of Ukraine adopted the Strategy for the Development of Tourism and Resorts until 2026 (2017). A purpose of its implementation is formation of facilitative conditions for activation of development of the tourism and resort sphere in accordance with international quality standards and European values, transformation of it into a high-profitable competitive sphere integrated into the world market. These processes provide acceleration of social

¹⁴ In 2015, Ukraine was not subject to such research on account of political reasons

and economic development of regions and the government in general and conduce to increase of life quality of the population and harmonic development, consolidation of the society, and popularization of Ukraine in the world. The mentioned Strategy includes a road map, which encompasses five vectors: 1) Safety of tourists; 2) The normative and legislative basis of development of tourism and resorts; 3) Development of tourism infrastructure; 4) Human resource development; 5) Marketing policy of tourism promotion of Ukraine.

Having analyzed the above-mentioned document, the author suggests supplementing a vector list with an important component such as “Ecological and Cultural Policy” as well as complementing and broadening the scope of the determined vectors, because the mentioned document (The Strategy...) does not contain aspects being necessary for Ukraine.

1. A vector “Tourist Safety” needs broader consideration. The government should guarantee safety and protection of legitimate rights and interests for tourists as well as other interested persons, particularly investors in the context of protection of their economic rights. Therefore, the author proposes to call it “Safety of tourists and investors”.

Taking into account the annexation of Crimea by the Russian Federation and conducting the anti-terrorist operation in the part of the territory of Donetsk and Luhansk regions, matters of tourist safety and other stakeholders of the NTS assume extreme importance. Although the mentioned territories are not great in size and free access from these territories is restricted, they generate a considerable number of problems. Nowadays, development of measures for overcoming military conflicts and terrorist acts is of considerable importance for Ukraine as well as the whole world. Implementation of a centralized system for accounting of accidents related with safety of tourists and other stakeholders may partially solve this problem. Such system will conduce to formation of a mechanism of counteractions against negative phenomena. In addition, adoption of legislative acts concerned with tourism activity safety and exercising a respective information policy are of great importance.

In accordance with this direction, bodies of state authority and other interested persons must establish effective mechanisms for real and financial guarantee liability of tourism activities to tourists for failure or poor quality of travel services; In particular, the introduction of a differentiated approach to the definition of insurance guarantees depending on the volume of services provided by each specific tour operator for a certain period is, in our opinion, an effective tool. This measure will contribute to the ensured justice for all tourism enterprises (small and micro enterprises in depressed

regions and powerful tour operators); this situation will also promote the creation of equal conditions of competition in the domestic tourism market.

2. The scope of the vector “Normative and Legislative Framework of the NTS Development” consists in the increase of influence of factors, which encourage the change of state regulation structure in the context of the individual approach influence and reconsideration of the state regulation role. Contemporary tendencies need transition from “bureaucratic” management to more effective methods. Taking into account comprehensiveness and diversity of components and importance of the NTS, the author proposes to form inter-agency bodies or delegation of powers to external agencies, which orient towards inter-agency management and coordination of processes of tourism policy development.

Over the last years, a model of the NTS management has quite changed frequently and cardinally. Obviously, there is no final version. In this context, search for the model of the NTS management is an important and applied goal. Since the choice of the model determines the role and methods of the government in the NTS regulation, it should be based on the powerful scientific framework. Positive trends are transition to a more “European” model of management of the NTS, which consists in formation of a tourism policy by a powerful economic ministry on behalf of the government. Nevertheless, taking into account importance and heterogeneity of the NTS components, the author thinks that there is a need to create an inter-agency body of several ministers, which would be eligible for formation of the government tourism policy.

The NTS management under condition of integration into the European and world spaces should be based on respective philosophy and principles. In this context, it is appropriate to apply the communication paradigm to a process of the NTS management. In the European community, the paradigm statements form basic principles of functioning and development, which are affirmed by scientific papers of leading scientists as well as practical implementation of ideas in work of the EU executive bodies.

The communication paradigm does not deny existence of a subject and object type of relations. Nevertheless, there is qualitative transformation of a management unit into an influence unit for the purpose of interaction between co-subjects (Khashyieva, 2012, p.97).

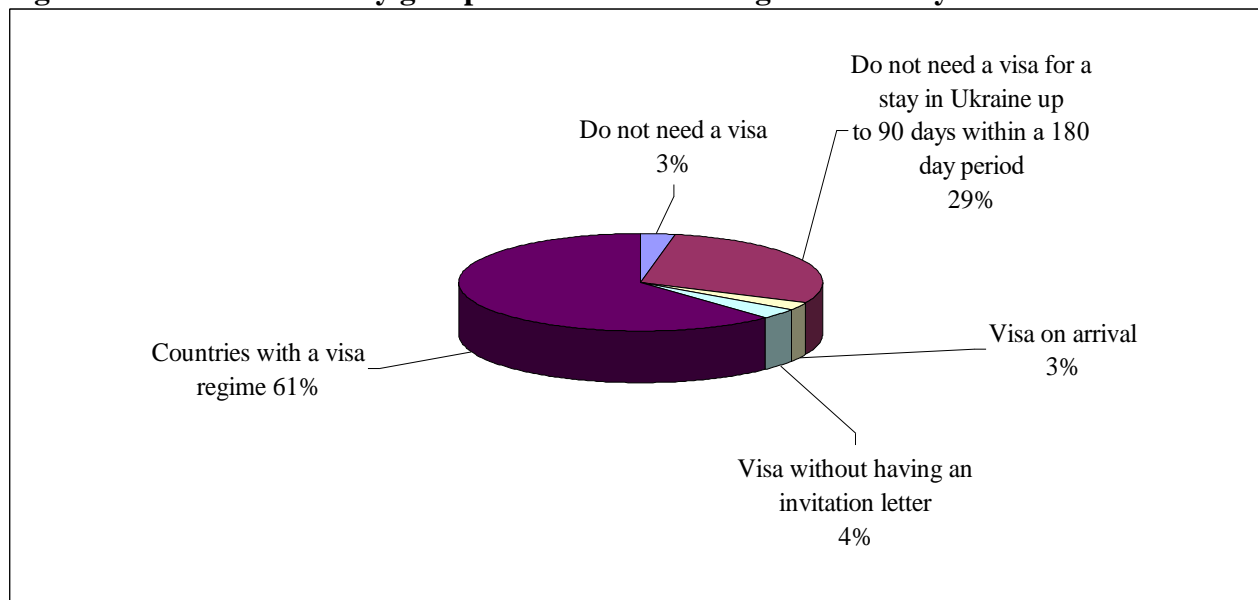
Ukraine needs to strengthen the role of civil society (NGOs direction of travel / tourism organizations public) in terms of tourism. For example, there are self-regulatory organizations (SRO) and the organization of professionals. Self-regulation means a voluntary submission of its members the rules of the organization to obtain a competitive advantage; affiliation of credible self-regulatory

organization that promotes sales of the product or service; consumers may also lose confidence in its former member, if you exclude its members from reputable SRO (Opanasiuk *et al.*, 2017, p. 90).

In that regard, it is important to include statements on liberalization of a visa regime for tourism-related arrivals in Ukraine for citizens of a set of countries. Especially, this relates to simplification of obtaining or abolition of visas for citizens of China, India, Persian Gulf countries, etc. A tourism market of these countries is quite perspective for Ukraine. For instance, China ranks first in expenses of tourists for travels, which accounted for 13.0% of world expanses in the tourism sphere in 2014.

Within the scope of determination of a level of openness and accessibility of the NTS, the author uses the researches of UNWTO Visa Openness Report 2015, according to which Ukraine belongs to a group of countries with a medium index of openness – 22-24 (an index for maximum openness equals 53-100). This group contains Australia, a significant number of Latin American countries, and all European countries without Belorussia and Russia. As at March 2016, citizens of only six countries do not need a visa for entry into Ukraine (3.0% of a general number of countries) and citizens of 56 countries do not need a visa for a stay in Ukraine up to 90 days within a 180 day period (29.0%). Citizens of 68.0% of countries enter Ukraine on the basis of visas. A share of country groups in view of a visa regime for entry into Ukraine is shown in Figure 2.

Figure 2. A share of country groups in view of a visa regime for entry into Ukraine



Source: World Tourism Organization, Visa Openness Report (2015)

Certainly, simplification or abolition of visas for entry into Ukraine of citizens of certain countries bear many risks, because visas are introduced for protection of citizen interests. Especially,

these risks are related to possibility of terrorist acts, national safety violations, and conflict escalations. Nevertheless, a flexible policy towards this direction will conduce to involvement of a more intensive flow of tourists. Such policy together with diversification of tourism supply will facilitate growth of efficiency of the NTS and establishment of better relations between countries. Moreover, implementation of electronic visas (e-Visas) for entry into Ukraine being innovative technology is prospective within liberalization of the visa regime.

3. Considerable tasks are concerned with a vector “Development of Infrastructure of the NTS Component”. In that regard, Ukraine needs solving numerous problems related to the worn and low-effective infrastructure basis. Some positive shifts are concerned with development of hotel, restaurant, and aviation businesses. Signing the agreement with the EU may be an important step.

Formation of innovative destination in the form of network-centric tourism and recreation systems (network-centric models of destinations) is one of results of practical implementation of the communication paradigm directly in tourism business at the regional level. Management of resources of these destinations is based on territorially distributed networks of information and communication hubs.

Competition for means of tourist accommodation has dynamically increased during the last period. Experts indicate a so-called “main stream in tourism” – “sharing economy”, “P2P” (peer to peer model of business). Sharing economy in tourism is referred to as a model implemented owing to network technology, which consists in temporary providing consumers with certain resources free of charge or on the basis of exchange of similar resources (housing, vehicles, equipment, and competences). The European Parliament has considered a matter concerned with regulation and the reaction to reasons and consequences of this phenomenon, because this phenomenon has positive and negative consequences. The positive consequences of sharing economy may encompass the increase of access and capacities of humans, especially with low incomes, in a tourism process. The negative consequences may include absence of legal and safety protection of suppliers as well as consumers, the loss of tax revenues owing to providing tourism services by unregistered economic entities, possible low quality of providing and receiving services, etc.

In this regard, dynamism of manifestation of an “informal component”, in contrast to a so-called “formal component” (governmental and non-governmental), is a quite relevant tendency for Ukraine, which is not sufficiently considered in scientific literature. The informal component encompasses providing tourism services organized in the freelance form, self-organized tourism, activity of cultural establishments, and tourism of public organizations initiating tourism flows. It

increases under the influence of social transformations and information communication technologies. Assessment of existence, the state, and dynamics of development of the mentioned informal component of the NTS is one of the most complicated objects of identification.

The spread and role of transnational corporations (TNC) are especially notable in the NTS. Economic advantages of TNC functioning in the NTS are as follows: a) conducing to development of a system of investing the mentioned and related systems; b) the increase of efficiency of capital usage and advantages of the economy of scale; c) a multiplication effect of the influence on other economic systems; d) an opportunity of formation of the mentioned capital and solving global problems; e) opportunities of diversification and specialization of production.

In the context of transnationalization, it is worth mentioning that tourism business is considered as one of sectors of profitable investing capital abroad, which is related with long-term tendency of the increase of international tourism flows, the geographical extension, and gradual entering the world tourism market of less developed countries.

4. A vector “Human Resources Development” should be concerned with improvement of professional skills of employers involved in the tourism system as well as the population in general (enhancement of hospitality, knowledge of foreign languages that will conduce to a comfort stay of internal and foreign tourists).

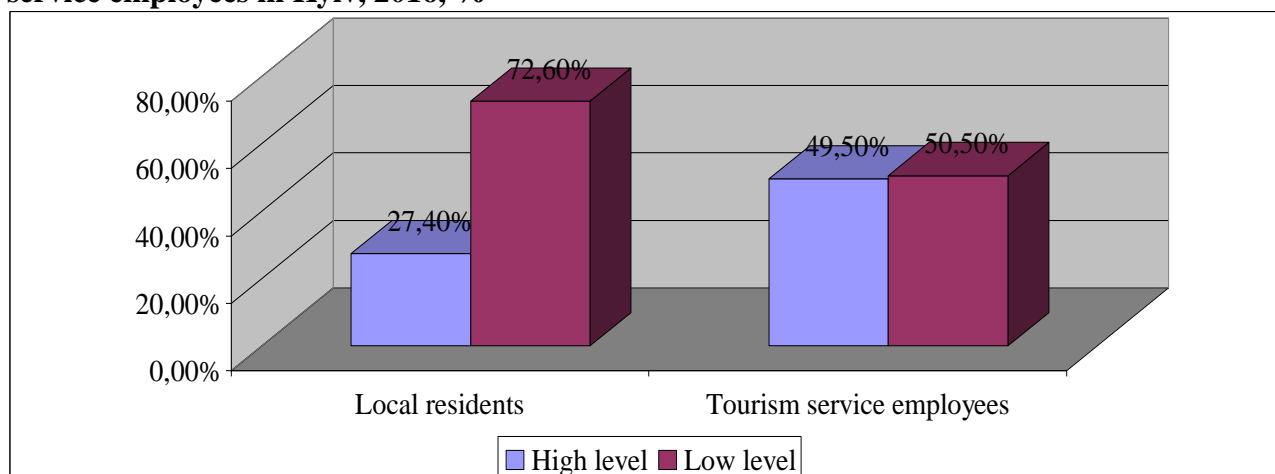
Numerous scientists in the tourism area take notice of the significant role of human resources in effective functioning of tourism systems (Raj, 2008; Milic, *et al.*, 2011; Kurdashvili, *et al.*, 2016). For instance, D. Perovic D., *et al.* using an Ordinary Least Square regression (OLS) investigated whether intangible elements influence tourist’s perception about service quality. They have concluded that an element such as «Communication with local people» has influence on perception of service quality among three other types of intangible assets (a) kindness of people presents tourist’s perception about kindness of people; b) security; c) kindness with children). This may be explained by the fact that tourist interaction with each other and with local people, as well, is seen as an important element of holiday and travel experience by modern tourist. (Perovic, *et al.*, 2013, p. 66).

Human resources are one of 14 components, which are used by experts of World Economic Forum to evaluate competitiveness of the tourism system. This fact confirms importance of human resources for the tourism system.

A problem concerned with a low level of Ukrainian citizens’ knowledge of English is of considerable importance. For example, according to the data of “Sociological research of tourist flows to the Kyiv city” (2016), foreign tourists point out that only 27.4% of the citizens and 49.5% of

tourism service employees have a high level of English (Figure 3.). It is worth mentioning that these figures are concerned with the capital of Ukraine. The situation in regions is worse. Therefore, there is a need to implement measures regarding improvement in this situation, particularly within public and private partnership on a volunteer basis.

Figure 3. Foreign tourists' evaluation of knowledge of English of the local residents and tourism service employees in Kyiv, 2016, %



Source: Sociological research of tourist flows to Kyiv (2016)

5. A marketing policy of the NTS promotion is primarily related with formation of the positive image and popularization of Ukraine as a country being attractive and safe for tourism.

Having taken into account experience of the most visited countries of the EU, the Ukrainian government made a decision regarding creation of the national tourism organization. Its purpose of functioning will comprise the following elements: a) formation and promotion of a competitive national tourism product in target tourism markets; b) development and implementation of a marketing policy of promotion of the national tourism product; c) organizing, holding, and participation at tourism exhibitions and vanities.

Various European world events, which significantly affect tourism development, are quite important for tourism development. Hosting the final football tournament was an important event over the last years in Ukraine. The research Zetiu *et al.* (2015, p. 387) shows “how a tourist destination may become a brand by means of events – a case study on Iasi as a candidate for European cultural capital”. Significant hopes of tourism perspectives are placed on hosting the final of Eurovision in Kyiv in 2017 and the final of UEFA Champions League in 2018.

6. Ecological and cultural policies should be concerned with the following processes: a) implementation of a concept of ecologization of tourism sustainable development; b) strengthening

measures regarding protection of natural as well as historical and cultural heritage; c) preservation of traditions and national identity.

Ukraine also should make maximum use of their own, unique to our state resources, methods, psychological aspects (for example, the events of the Revolution of dignity led to increased attention to Ukraine as a tourist destination; interested persons (stakeholders) should help attract tourist flow by promoting patriotic tourism in our country).

Table 4 below contains the mentioned proposals regarding strategical vectors of transformational shifts in the NTS of Ukraine.

Table 4. Strategical vectors of transformational shifts in the NTS of Ukraine

Vectors		Directions	
Safety of tourists and investors	Providing safety of tourists and protection of their legitimate rights and interests	Providing protection of rights and economic interests of investors investing in the national tourism system	
The normative and legislative basis of development of the NTS	Implementation of the EU legislation in the tourism sphere	Liberalization and effective regulation of conducting an entrepreneurial activity in the tourism sphere	Liberalization of the visa regime for entry into Ukraine
Development of the NTS infrastructure component	Providing complex development of territories	Providing accessibility of tourism infrastructure objects for disable persons and other physically challenged persons	Increase of quality of tourism infrastructure
Human resource development	Improvement of a system for professional training professionals in the tourism sphere	Providing scientific maintenance and the research in the tourism sphere and resorts, implementation of progressive innovative developments	Extension of population hospitality and enhancement of people's knowledge of foreign languages.
A marketing policy of the NTS promotion	Formation and promotion of the positive image of Ukraine	Formation and implementation of competitive national, regional, and local tourism products	Activation of country- and world-level events in Ukraine
Ecological and cultural policy	Implementation of a concept of ecologization of tourism sustainable development	Strengthening measures regarding protection of natural as well as historical and cultural heritage	Protection of traditions and national identity

Source: own representation

Strategical programs of the NTS development should be supported by appropriate financing through involvement of private investments. And also “the state must create the optimum conditions for doing business both in order to attract foreign investments and to create favourable conditions for local entrepreneurs” (Okhrimenko *et al.*, 2015, p. 52).

The author considers capital investments in the NTS of Ukraine according to the following types of economic activity: a) temporary allocation and organizing meals; b) art, sport,

entertainments, and rest; c) activity of tourism agencies, tourism operators, providing other services of booking and the related activity. As can be seen from Table 5, during 2011-2012 the investment amount has increased by 49.8% and 61.6% respectively. The investment amount has been quite considerably declined by 16.0%, 50.5%, and 5.0% since 2013.

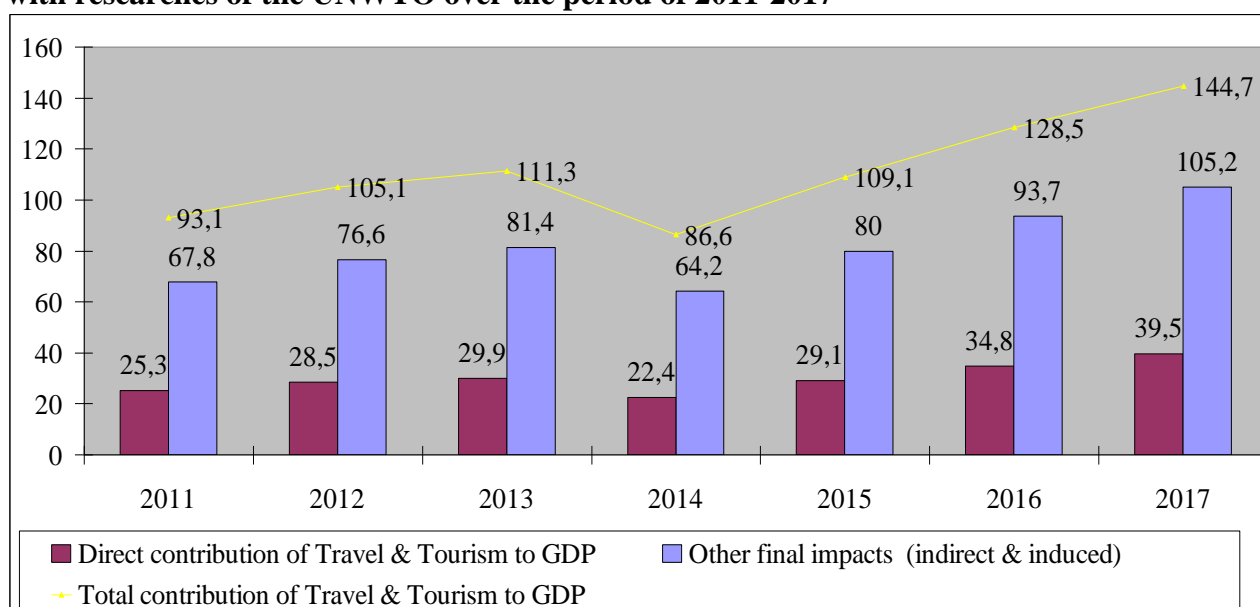
Table 5. Dynamics and amounts of capital investments attracted in the NTS of Ukraine in 2011 – 2016

Category	2011	2012	2013	2014	2015	2016
Capital investment amount, million hryvnias	3010,0	4862,9	4083,0	2022,4	1920,7	2182,4
Rate of the capital investment increase, %	49,8	61,6	-16,0	-50,5	-5,0	+13,6

Source: State Statistics Service of Ukraine, Capital investment in Ukraine (2017)

Nevertheless, regardless of negative tendencies regarding financing tourism, revenues of the State Budget of Ukraine from the NTS indicate quite positive trends (see Figure 4).

Figure 4. Economic contribution of the NTS to the GDP of Ukraine is determined in accordance with researches of the UNWTO over the period of 2011-2017¹⁵¹⁶



Source: World travel & tourism council, Travel & Tourism economic impact Ukraine (2017)

The research of the UNWTO “Travel & Tourism Economic Impact Ukraine 2017”, which is based on the method of Tourism Satellite Account: Recommended Methodological Framework,

¹⁵ UAHbn, nominal prices

¹⁶ The data for 2017 are estimates

determines the economic contribution of a sector “Travels and Tourism”, taking into consideration the direct, indirect, and induced contribution of tourism to the GDP of Ukraine. The direct contribution of the NTS to the GDP of Ukraine is caused by the activity directly related to providing tourism servicing, particularly by tourism companies, hotels, aviation companies, other enterprises, which provide passenger transport services, restaurants, entertainments establishments that work directly with tourists. The contribution shows a positive trend regardless of negative consequences. In general, the increase has accounts for 56.1% over a seven-year period.

The tourism activity leads to direct and secondary results. The secondary results are concerned with revenues from tourism in related industries. A reason of appearance of induced results is the increase of demand for goods and services owing to growth of tourism activity amounts. Over the last seven years, the indirect induced and direct results of the NTS functioning have fluctuated within 72.7-74.1% and 25.9-27.3% respectively. Having determined the correlation between direct and other final consequences of the NTS in the GDP structure, the author may conclude that each monetary unit earned in tourism conduces to earning 2.7 – 2.9 monetary units in other industries in Ukraine. That is to say, the NTS is able to activate positive shifts in other systems of the national economy owing to the multiplication effect.

Globalization is one of the most influent transformational processes. On the one hand, the NTS is an object of influence. On the other hand, it is a global social and economic phenomenon, which significantly affects the international order. In the context of globalization phenomena, there is a problem of their ambiguous consequences and the necessity of formation of a “protective” behavior model because of the possible imbalance of social and cultural as well as ecological spheres. The loss of national identity in tourism products, which may lead to complicated national problems, is especially dangerous manifestation of globalization. Therefore, a flexible and effective policy towards this direction should correct negative consequences.

Conclusions

The national tourism system (NTS) is a component of an economic system, which is based on inter-sectoral interaction between economic entities concerned with production, selling, and organizing consumption of a tourism product.

There is a need for determination of the strategic vectors of development of the national tourism system in Ukraine under contemporary transformational shifts. The optimal balance between a set of

factors will become the basis for formation of the powerful competitive national tourism system of Ukraine. These factors should include: a) taking into account experience of other countries and specificity of our country in the process of formation of the development strategy; b) possible transformational influences and reactions to them (prediction, usage of foresight methodology); c) the dynamic increase and conformity to principles of sustainable development; d) formation of development conceptions and opportunities of their implementation in practice.

Summarizing the research, it is worth highlighting that the subject area of conceptual substantiation of transformational influences on the NTS is a complicated scientific problem. Solving this problem is of considerable importance on the theoretical and practical dimensions. Thus, it requires further research.

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