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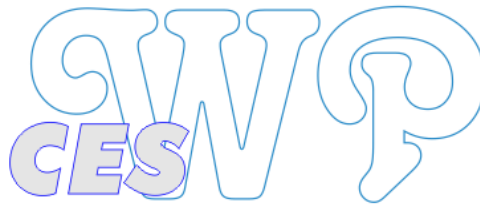
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Convergence or divergence of the European Union's energy strategy in the Central European countries?

Grażyna WOJTKOWSKA-ŁODEJ*, Honorata NYGA-ŁUKASZEWSKA**

Abstract

Even though there is no common energy policy, EU energy strategy sets the background of the energy landscape in Europe. EU energy policy responds to different challenges in the energy market. One of them is climate change. Growing emissions of greenhouse gases aroused world's interest aimed at reducing the harmful impact of the energy industry on the environment. The European Union has undertaken a low-emission strategy set out in the package called "3x20". The aim of the study is on one hand to present program measures and regulations taken in the EU in the recent period for sustainable energy management and reduction of greenhouse gas emissions and on the other try to assess program's implementation by Member States. The article presents the current state in terms of achieving the objectives of the "3x20" package in 2017, with a special diagnosis of conditions and trends in the Central and Eastern Europe countries that joined the EU after 2004. Paper includes the analysis of the official EU documents within energy policy and empirical evidence on their implementation. The analysis uses the literature review and data from the Passport, Eurostat and OECD databases. Methods employed in this study include critical literature review and secondary data analysis.

Keywords: low-carbon economy, Central and Eastern Europe, climate policy

Introduction

Growing greenhouse gas emissions (GHG-greenhouse gases) and global warming actively involved the European Commission in international action to counteract climate change. The activity of the European Union (EU) in this respect was an expression of the policy pursued in the field of environmental protection. This activity contributed also to actions for the sustainable development of Europe in line with the provisions of the Treaty on European Union (TEU).

An important area affecting the level of greenhouse gas emissions and, consequently, climate change is energy management. The energy industry emits significant amounts of carbon dioxide to the atmosphere, contributing significantly to the greenhouse effect. Therefore, it has been recognized that the transformation of the energy industry towards replacing conventional energy carriers with

* Grażyna WOJTKOWSKA-ŁODEJ is Associate professor at the Warsaw School of Economics, Poland, email: gwojtko@sgh.waw.pl.

** Honorata NYGA-ŁUKASZEWSKA is Assistant professor at the Warsaw School of Economics, Poland, email: hlukas@sgh.waw.pl.



renewable energy carriers (RES), through modern, and innovative energy technologies; may be a key issue in mitigating climate change.

The goal of this study is to, on one hand, present EU from the sustainable energy management perspective and reduction of greenhouse gas emissions, and on the other assess their implementation by the Member States. Therefore, research question checks how progressed are Central European countries with the implementation the EU's energy strategy.

The study analyzes the initiatives and activities undertaken in between 2000-2017 in EU as part of the energy and climate policy aimed at the transformation of the EU economy into a low-carbon economy. Low-carbon economy is characterized by the dominance of renewable sources in the energy balance, at the expense of conventional energy carriers; reduction of energy consumption through increased energy efficiency; innovation and use of new, clean energy technologies along with modernization of energy infrastructure. Those solutions should result in building a modern, competitive economy and environmentally friendly economy offering Europe new job possibilities, social inclusion and energy security. It is also assumed that thanks to a decrease in costs in the energy industry and technological development that would improve the flexibility of energy suppliers, such transformation will be possible. Transformation processes visible in the structure of energy produced will be accompanied by changes on the part of energy consumers and their needs, in particular related to the development of electro mobility.

The study presents the current state of achievement of the objectives of the package 3 x 20 in the EU 28, with a special diagnosis of conditions and trends in this area in the countries of Central and Eastern Europe that joined the integration group after 2004. The analysis includes the structure of domestic energy resources and their use, dependence on imports of conventional energy carriers and emissions, pointing to the economic, social and institutional conditions for their development towards a low-emission economy. On the basis of the conducted research, authors indicate the areas in which, on one hand, significant progress has been made in recent years and, on the other, those which require more attention and support.

In order to prepare this study authors used the literature of the subject, the EU documents regarding the strategy of building a low-emission economy in the European Union, referring to energy and climate policy, legal regulations, reports and industry studies. Paper is structured as follows: firstly, authors look at official documents within the respective areas and then provide an empirical evidence using secondary data. The latter analysis is based on data from the Passport, Eurostat and OECD databases.

1. Energy policy of the European Union - towards a low-carbon economy – regulatory practice

The theoretical basis for building the concept of a low-emission economy is the concept of sustainable development within the ecological economy framework. This idea assumes that economic development can only take place within the limits of nature's tolerance. This includes the need for selective economic development, greater coherence of activity, increasing efficiency and care for the exhaustibility of natural resources. Transforming the EU economy into a low-carbon economy means integrating all aspects of the economy around low-emission and zero-emission energy technologies. They include: effective energy solutions, the use of renewable energy sources and environmentally acceptable technological innovations. Low-carbon economy is also characterized by efficient management of energy resources in relation to production, transmission, distribution and consumption processes. That includes also use of wastes generated during whole energy life-cycle process. The above given activities should be pursued minimizing greenhouse gas emissions at the same time. The strategy of building a low-emission economy is to contribute, apart from the expected reduction of greenhouse gas emissions, to economic growth and new jobs, competitiveness of selected sectors and the whole EU economy, reducing the EU's dependence on oil and gas imports, but also improving the quality of life.

The EU sustainable development strategy in the area of energy management and climate change towards long-term low-carbon economy was presented in 2011 in the *A Roadmap for moving to a competitive low carbon economy in 2050* (European Commission, 2011). It was the next stage of the activities that had been initiated earlier, and visible in the EU *Energy Strategy* (European Commission, 2007) and the EU Strategy for socio-economic development Europe 2020 (European Commission, 2011). At the same time, it was an impulse for further actions, followed by the establishment of the political framework for climate and energy for the period 2020-2030 (European Commission, 2014), and a document defining the vision of the creation of the Energy Union (European Commission, 2015). Its basis, as stipulated in the Commission's communication, is an ambitious climate policy based on cooperation between Member States in five inter-related areas, namely: efforts to decarbonize the economy, energy security, solidarity and trust, an integrated European energy market, energy efficiency, and in the area of research, innovation and competitiveness.

In order to achieve long-term emission targets in the climate and energy package, quantitative targets have been set for reducing CO₂ emissions by at least 20% in 2020 compared to base 1990, increasing the share of renewable energy in final energy consumption to 20% by 2020 including a 10% share of biofuels in the use of fuels, and an increase in the use of energy efficiency by 20% by

2020 compared to the forecast for the demand for fuels and energy. Then, for the years 2020-2030, the above indicators were set at a higher level of 40%, 27% and 27%, respectively¹. By 2050, transforming the EU into a competitive and low-carbon economy means, according to the *Roadmap* (European Commission, 2011), reduction of emissions by 80% (up to 95%), compared to the level in 1990. Achieving these goals will require profound changes in the structures of EU Member States' economies with particular emphasis on energy-intensive sectors, apart from energy including also construction and services, industry, transport and agriculture.

The estimates assume that the emissions reduction will take place gradually along with the growing use of low-emission technologies. This will mean: production of electricity and heat in dispersed sources, the abandonment of the use of conventional energy carriers and the transition to a more efficient, sustainable energy system in the EU (Wojtkowska-Łodej, 2016, pp. 331-311). Along with the adoption of the low-carbon economy strategy, a number of coordinated activities were undertaken in the past period. They concentrated in the fields of: industry, transport, R & D policy, innovation and infrastructure policy, improvement of the business environment and financial support, integrating energy and climate projects².

A few years before the end of 2020, one can observe desirable trends in the development of common reduction targets in the EU. This applies to the share of energy from renewable sources in final gross energy consumption (since 2005), energy efficiency as well as greenhouse gas emissions. Trends correspond to relative changes compared to 1990 levels.

Against the background of positive trends regarding the implementation of common reduction targets for the EU 28, there is a significant differentiation among Member States, in particular with regard to the reduction of greenhouse gas emissions (Eurostat, 2017a, p.264, EEA, 2017, p. 20). It results from the domestic conditions, in particular from the situation in the scope of energy resources and their domestic energy balances.

2. Member states from Central and Eastern Europe (CEE): conditions for development – empirical evidence

Central and Eastern European region joined the EU successively in 2004, 2007 and 2015. The Czech Republic, Estonia, Lithuania, Latvia, Poland, Slovakia, Slovenia and Hungary participated in the first, enlargement, followed by Bulgaria, Romania and Croatia. This group of countries in the

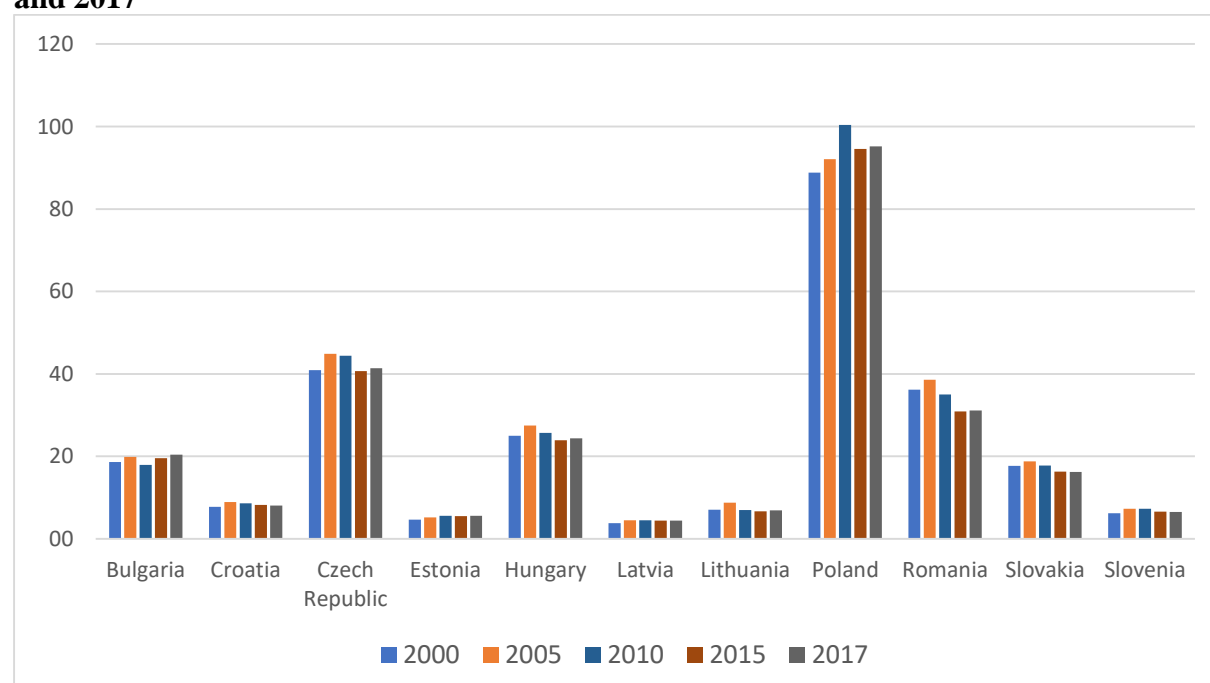
¹ On June 27th 2018, after five months of talks, Parliament and the Council reached an agreement on the revision of the renewable energy directive. The new target is 32% of renewable energy in final energy consumption, EU in 2030 instead of 27%.

² Additional, necessary investments are estimated at around EUR 270 million (corresponding to an average of 1,5% of the EU's annual GDP) over four decades [COM (2011) 112].

CEE region significantly increased the number of EU citizens by more than 92 million inhabitants. It expanded also the area of free flow of goods, people, services and capital. At the same time, it also contributed to further diversification within the EU, including the field of energy management. Admittedly, in accordance with treaty regulations (Article 194, paragraph 2) TFEU, Member States have the right to choose between different energy sources and create their own energy supply structure, taking into account own energy resources and economic interests, but should also respect common goals and rules as part of EU policy. In these countries significant economic and social changes took place as a result of economic transformation of the late XXth century and adjustments from the EU membership. Important challenges regarding the energy industry of the CEE countries constitute: the role in the energy industry in the country, domestic base of conventional energy resources and the energy infrastructure condition along with planned activities under the EU energy and climate policy. Therefore, below we are looking at: primary energy supply, share of fossil fuels in electricity generation, final energy consumption, greenhouse gas emissions and energy import dependence (solid fuel/ oil and petroleum and natural gas).

Among the countries in the CEE region between 2000 and 2017, Poland, the Czech Republic, Romania, Bulgaria and Hungary had the largest primary energy supply, while other countries, namely Slovakia, Croatia, Slovenia, Lithuania, Estonia and Latvia, were considerably smaller and accounted for around a quarter level of Poland's primary energy supply (Figure 1). In most countries, there is a slight decrease in primary energy demand since 2010.

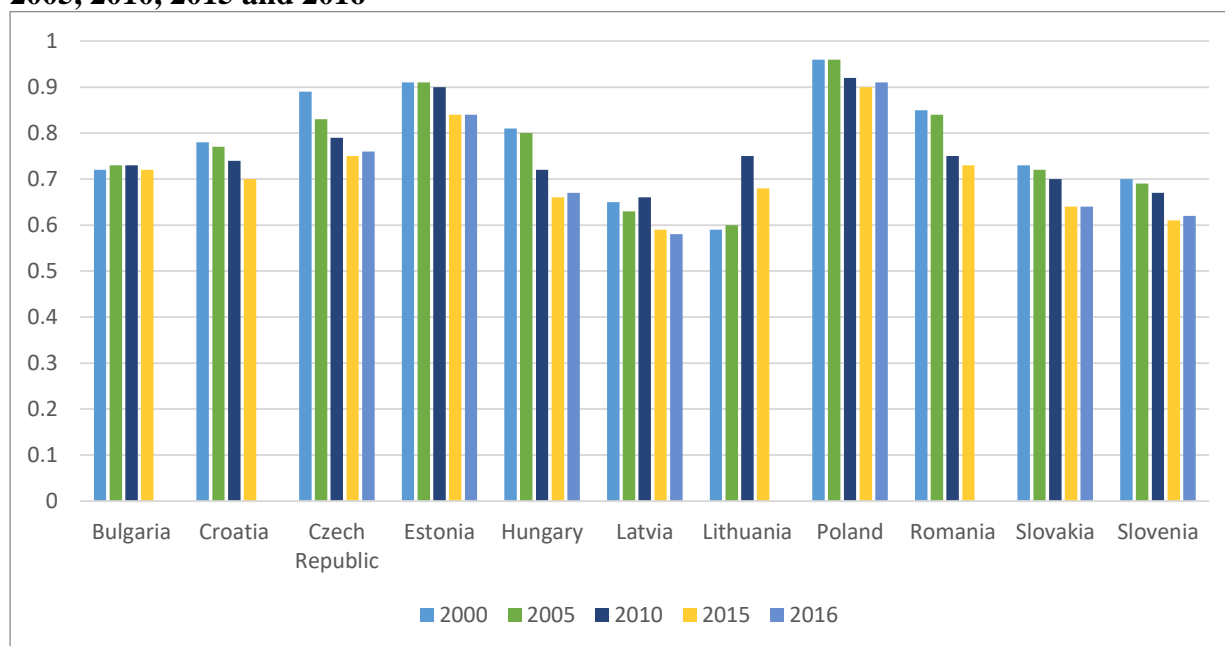
Figure 1. Primary energy supply (million toe) in selected countries in 2000, 2005, 2010, 2015 and 2017



Source: own elaboration based on Passport database

The gradual decline in demand applies also to fossil fuels, whose share in the primary energy balance is constantly high in all countries of the region and ranges from 60-90% (Figure 2). It is worth mentioning that in the category of fossil fuels there is not only coal, but also oil and natural gas. A relatively large drop can be observed in the analyzed period in the Czech Republic, Romania, Slovakia and Hungary. These, slow but positive, tendencies are accompanied by the increase in the use of renewable energy sources (Figure 3). Their development has been observed in many countries of the region since 2010, and the dynamics and volume of renewable energy used in Romania deserve attention, higher than in Poland in Bulgaria and the Czech Republic. In these countries, the energy of the sun, wind or water is used.

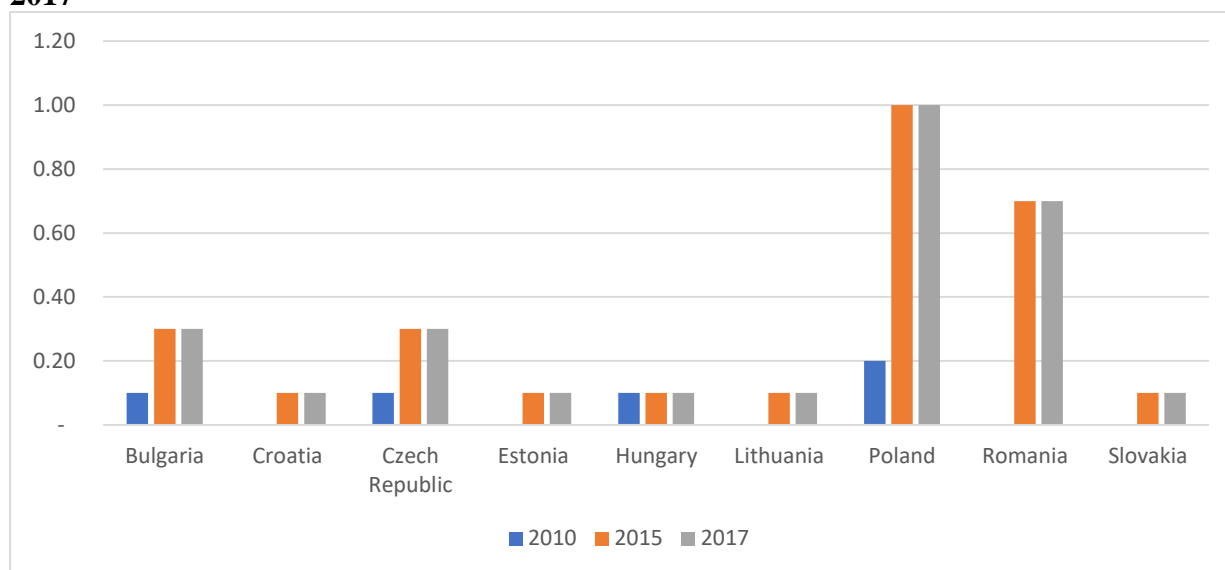
Figure 2. Share³ of fossil fuels in primary energy balance in selected countries in years 2000, 2005, 2010, 2015 and 2016



Note: Data for 2016 were not available for Bulgaria, Croatia, Lithuania and Romania.

Source: own elaboration based on OECD database

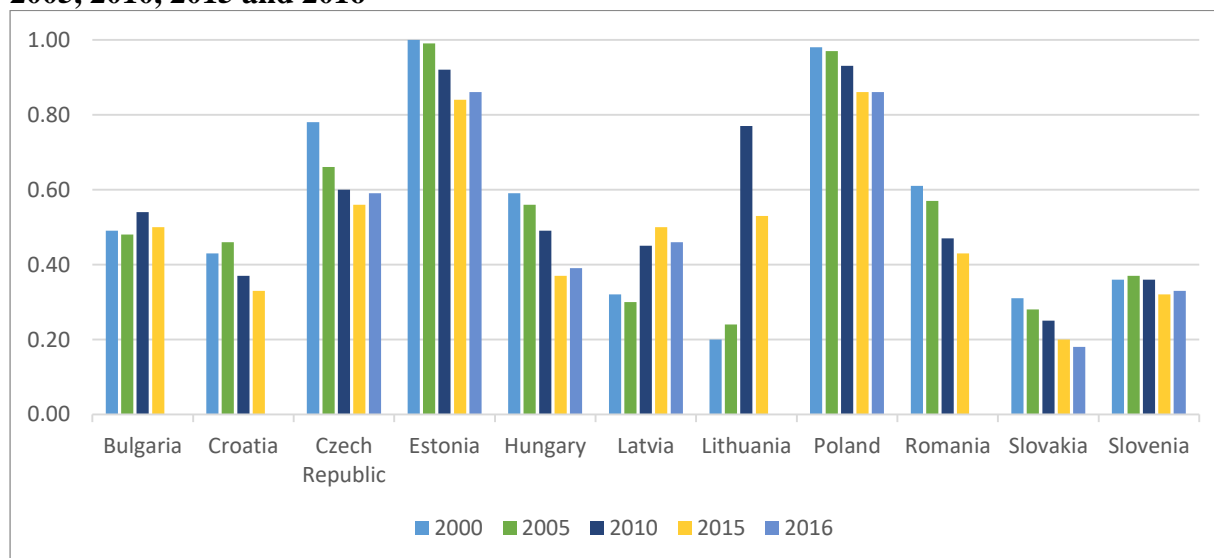
³ "Share" is given in accordance with the method of data presentation in the database from which the data originates. Therefore, in parts of the figures it is a range from 0 to 1 (or more than 1), while in others it is from 0 to 100 (more than 100).

Figure 3. Renewable energy production (mln toe) in selected countries in years 2010, 2015 and 2017*

Notes: For Latvia and Slovenia data are missing for the whole period. Data for 2010 are not available for Croatia, Estonia, Lithuania, Romania and Slovakia.

Source: own elaboration based on Passport database

The balance of primary energy demand is related to the production of electricity. The structure of its production in the CEE region has been presented based on data on the share of fossil fuels in the production of electricity. When analyzing OECD data, it is clear that the countries of the discussed region are characterized by significant differences in the use of fossil fuels for the production of electricity (Figure 4).

Figure 4. Share of fossil fuels in the electricity generation in selected countries in years 2000, 2005, 2010, 2015 and 2016

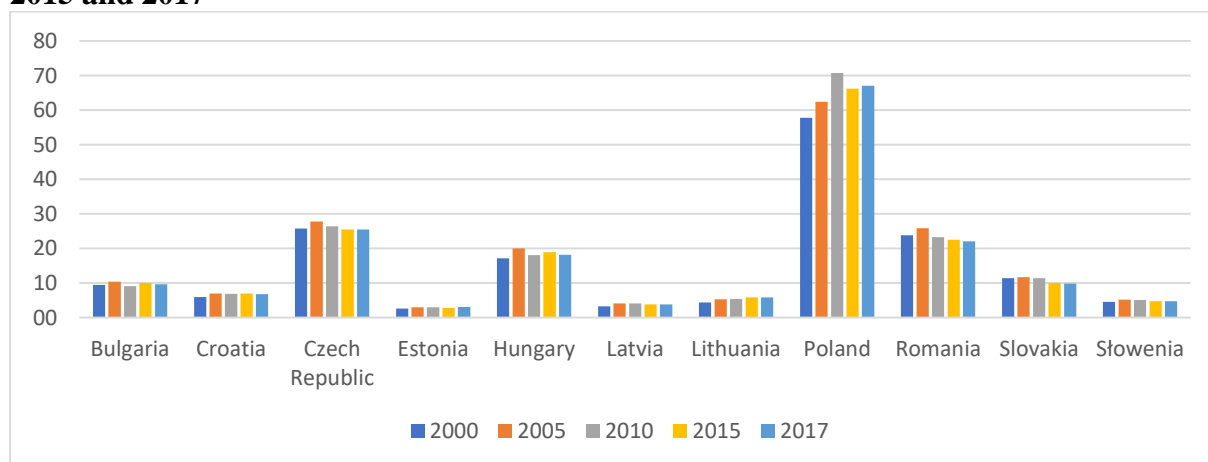
Note: Data for 2016 were not available for Bulgaria, Croatia, Lithuania and Romania.

Source: own elaboration based on OECD database

The largest share of fossil fuels in the generation of electricity is observed in Poland, Estonia and the Czech Republic. It is a result of the aforementioned domestic resource base. A significant increase in the share of fossil fuels in electricity production in Lithuania in 2010 resulted from the Ignalina nuclear power plant shut down and consequent increased use of natural gas. Analyzing the share of fossil fuels in the production of electricity in selected countries over the period 2000-2016, it is worth mentioning that similar trends can be observed at the CEE group level. In most countries, less and less electricity is produced from fossil fuels. An exception in the Central and Eastern Europe is Latvia, for which this share grew from around 30% in 2000 to around 50% in 2016. The high dynamics of changes observed for Lithuania results from the aforementioned change in the structure of electricity generation.

From a whole group of the CEE countries, Poland with energy consumption at the level of 95 million toe accounts for 6% of the total energy consumption in the EU amounting to 1626 million toe in 2015. The group of the largest EU energy consumers (2015) includes: Germany 314 million toe (19%), France - 253 million toe (16%), Great Britain - 191 million toe (12%) and Italy - 156 million toe (10%)⁴. The energy consumption in the CEE region in the analyzed period showed a downward trend. In comparison with 1990, the largest decreases were observed in 2015 in three Baltic countries, namely Lithuania (-57%), Latvia (-45%), Estonia (37%), but also in Romania (-44%), Bulgaria (-33%) (Eurostat, 2017b). With regard to final energy consumption, declines are less clear although they can be observed in the Czech Republic, Romania, Slovakia but also, although to a lesser extent in Poland (Figure 5). These trends are the result of processes of economies' restructuring as well as the effect of measures undertaken in the countries of the region with aim to increase energy efficiency.

Figure 5. Final energy consumption (mln toe) in selected countries in years 2000, 2005, 2010, 2015 and 2017

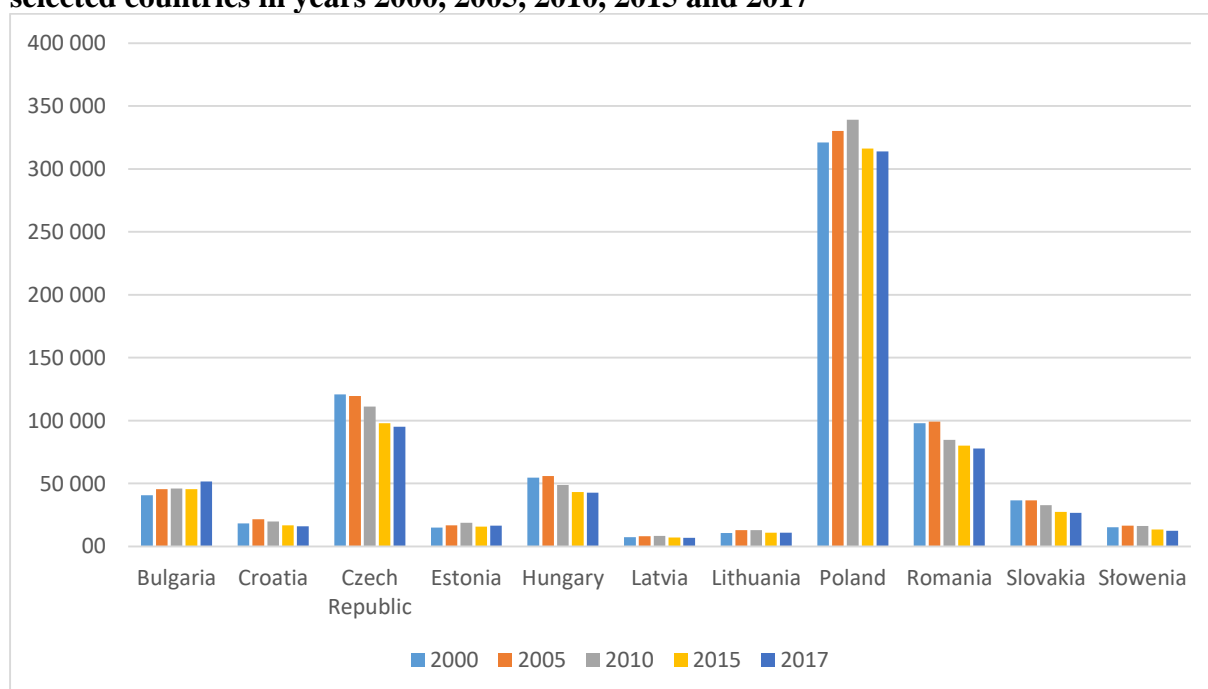


Source: own elaboration based on Passport database

⁴ Share in the total energy consumption in the EU.

Domestic resource base and its use consumption structure, with an extremely high share of solid fuels, significantly affect the amount of pollutants emitted to the atmosphere. The analysis of greenhouse gas emissions in the region's countries in the years 2000-2017, was conducted with the use of the Passport database and data covering greenhouse gas emissions from the energy industry (thousands of tons of CO₂ equivalents). It can be noticed that Poland represents the highest in the CEE group greenhouse gas emissions reaching more than 300 000 thousand tons of CO₂ equivalent. Incomparably lower emissions, oscillating around 100 000 thousand tons of CO₂ equivalent, were observed in the Czech Republic and Romania.

Figure 6. Greenhouse gas emissions from energy industry (thousand tons of CO₂ equivalent) in selected countries in years 2000, 2005, 2010, 2015 and 2017



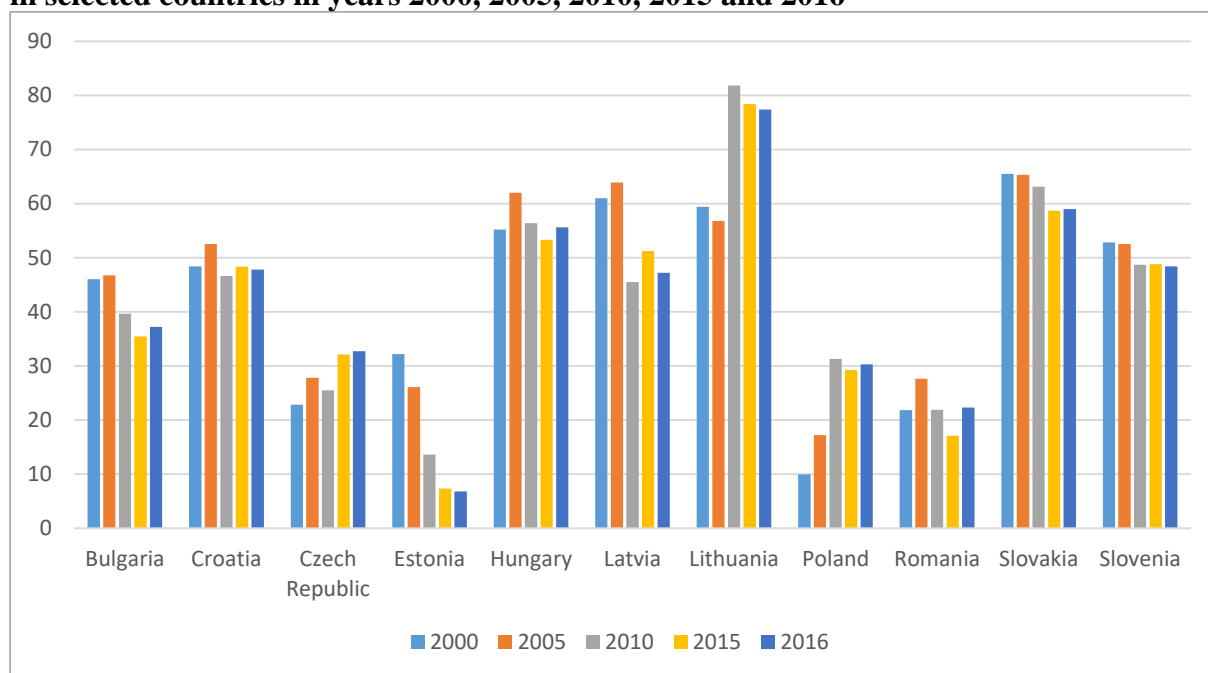
Source: own elaboration based on Passport database

Analyzing the GHG emissions from the energy industry over the years, it can be seen that all the countries of Central and Eastern Europe are characterized by a relatively constant level. Until 2007, the level of emissions seemed to be unchanged. It was only the economic crisis and the related reduction of industrial production that contributed to the reduction of greenhouse gas emissions. Apparently, this trend was visible in Poland, Romania and Bulgaria.

Due to insufficient domestic resource base, the countries of the Central and Eastern European region are forced to import deficit resources. In general, dependence on fuel imports is given as a percentage share of imported energy in total energy consumption. Analyzing such statistics for the group of discussed countries, it can be noticed that there are significant differences between individual states in this respect. At the EU-28 level, the share of imported energy in its total consumption in the

years 2000-2017 was stable and reached around 50%. Results of foreign energy imports dependence, significantly below this level, were recorded in the Czech Republic, Estonia, Poland and Romania. Other countries of the region were characterized by dependence on energy imports similar to the EU average (including Slovenia, Hungary) or higher (Lithuania).

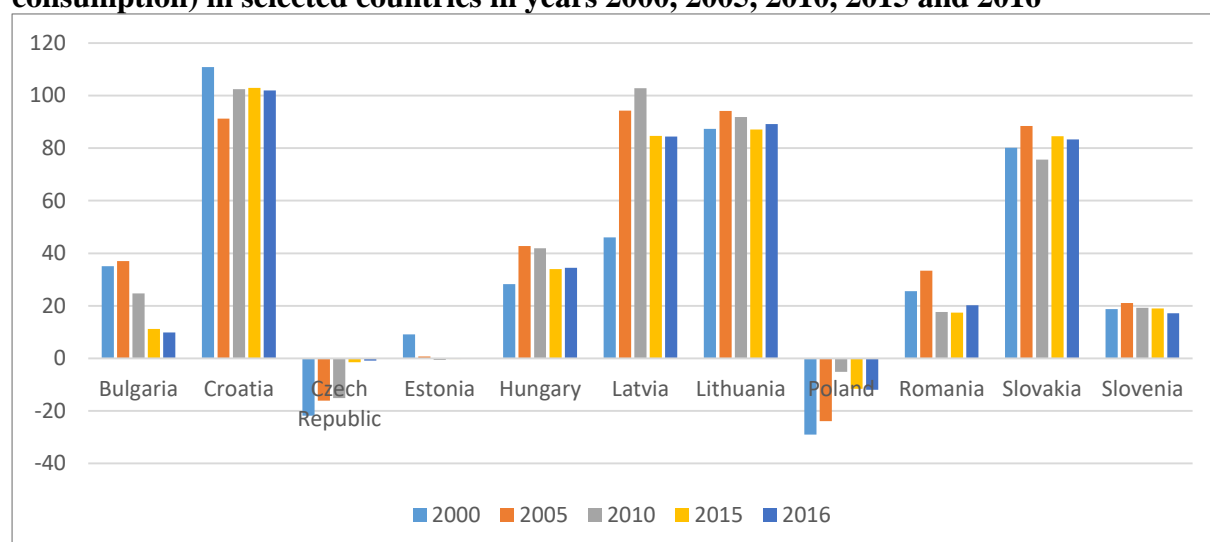
Figure 7. Energy import dependence (% share of imported energy in total energy consumption) in selected countries in years 2000, 2005, 2010, 2015 and 2016



Source: own elaboration based on Eurostat database

The dependence on energy imports in the case of Poland and the Czech Republic corresponds to the levels of their solid fuels' export (Figure 8). Both countries are one of the world's major exporters of coal. Over the years 2000-2016, it was observed that both in Poland and in the Czech Republic there was a reduction in coal exports related to competition from cheaper raw material from other countries. In turn, Croatia, Lithuania, Latvia and Slovakia are a group of countries in the region that cover almost all of the demand for solid fuels with imports.

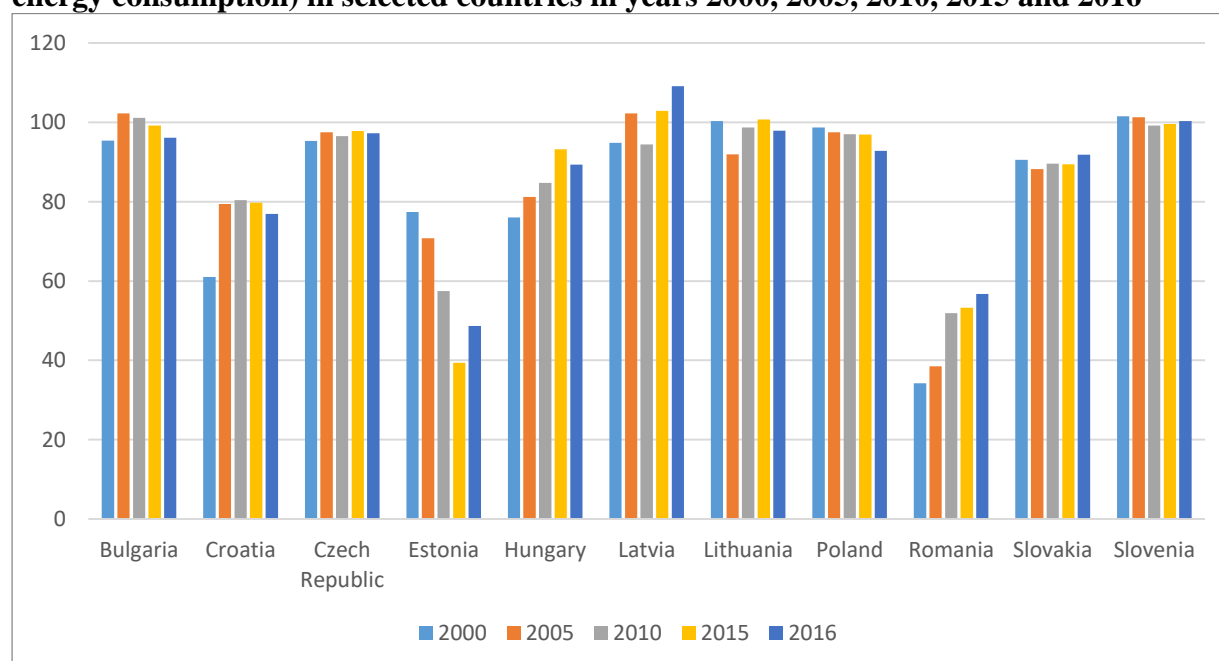
Figure 8. Solid fuel import dependence (% share of imported energy in total energy consumption) in selected countries in years 2000, 2005, 2010, 2015 and 2016



Source: own elaboration based on Eurostat database

In the case of crude oil (Figure 9), most of the countries in the discussed region covered almost all of the demand with imports from abroad. In this dimension, the countries of the region, in a degree higher than the EU average (EU-28), were dependent on import supplies. The exception in the group of Central and Eastern European countries is Estonia (unconventional oil) and Romania, which thanks to the national resources of crude oil are less dependent on the import of this commodity.

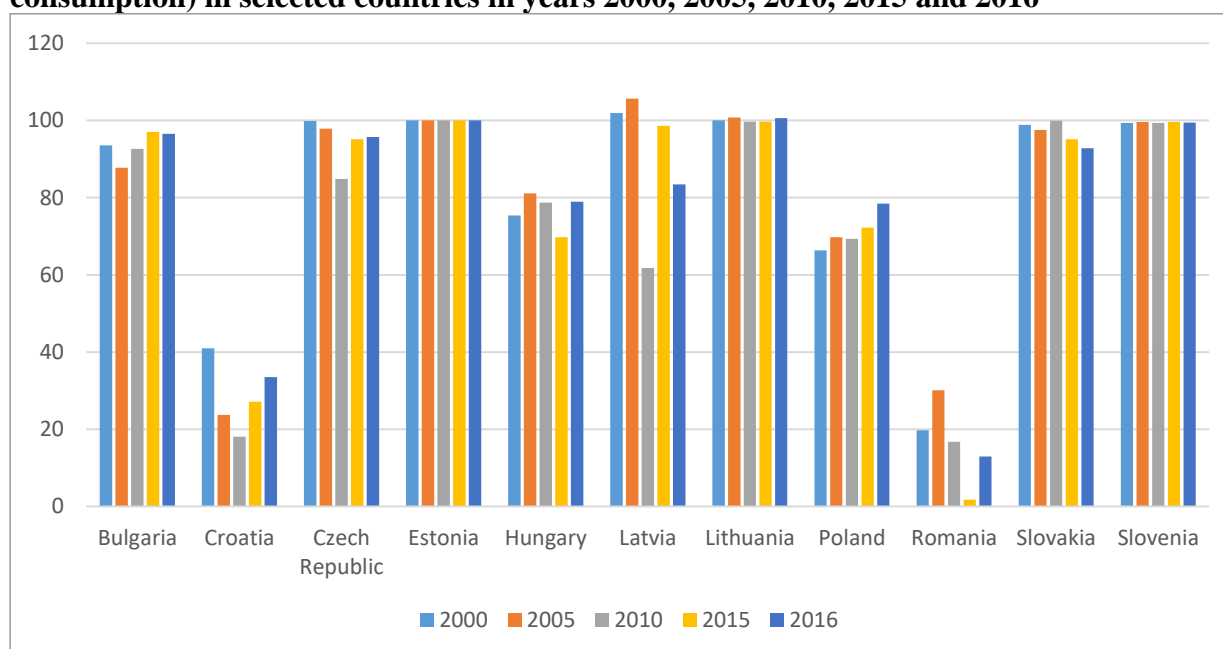
Figure 9. Oil and petroleum products import dependence (%share of imported energy in total energy consumption) in selected countries in years 2000, 2005, 2010, 2015 and 2016



Source: own elaboration based on Eurostat database

The CEE countries are more diversified in natural gas than in oil and petroleum products import (Figure 10). Natural gas import dependence is presented as the share of imports in total energy consumption. The majority of countries in the analyzed group is characterized by higher dependence on imported natural gas than the EU-28 average. In many countries, such as in Bulgaria, the Czech Republic, Estonia, Lithuania, Slovakia or Slovenia, almost all of this commodity comes from abroad. Countries that have a significantly better situation in imports of natural gas are Croatia and Romania. Both countries have a long tradition of natural gas extraction. Poland, compared with the countries of the region, stands out slightly higher than the EU-28 average dependence on natural gas imports.

Figure 10. Natural gas import dependence (%share of imported energy in total energy consumption) in selected countries in years 2000, 2005, 2010, 2015 and 2016



Source: own elaboration based on Eurostat database

Thus, the high fossil fuel dependence in the CEE region, including the growing dependence on their imports and CO₂ emissions, places these states in a difficult situation especially when facing the EU energy-climate policy challenges and the Community's desire to build a low-carbon economy in Europe by 2050. In order to assess the changes taking place in recent years in the CEE countries, we analyze and assess the progress in achieving the goals of the 3x20 package by 2020.

Analyzing the progress of countries from Central and Eastern Europe in achieving the climate and energy goals set for 2020, it can be seen that there is a group of leaders meeting climate-energy goals. That includes: Croatia, the Czech Republic, Estonia, Poland and Romania. These countries in 2016 reached the targets set for 2020 in limiting energy consumption, as well as in increasing above the target share of renewable energy in energy consumption (Table 1 in appendix).

It seems that a greater challenge for the countries of the region is the reduction the amount of energy consumed than increase in the RES consumption. In addition to Estonia in 2016, countries such as Croatia, Slovenia, Lithuania, Latvia and the Czech Republic also gradually reduced their final energy consumption. These are countries that in 2016 were less than 1 million toe from the 2020 target. An interesting observation delivers the case of Romania. This country was the only one who not only fulfilled the goals, but also reached the level of energy consumption significantly below the assumed threshold (about 8 million toe).

The analysis of the share of renewable energy in final energy consumption in 2016 shows, that most countries of Central and Eastern Europe have fulfilled their obligations in this area. The exceptions are Latvia, Poland, Slovakia and Slovenia. It is worth emphasizing, however, that these four countries are located around 2 to 4 percentage points (pp.) below the target. This means that its implementation in the perspective of 2020 is probable. Noteworthy is the situation of Croatia, which not only realized the target already in 2016, but also achieved 8 pp. "surplus" in relation to the 2020 target.

Regarding greenhouse gas emissions, including those from the energy sector, a downward trend can be observed in the analyzed period. However, for the countries of the region, the planned EU reduction target may be difficult to achieve. In 2015, only Estonia was closest to meet this goal and the gap amounted to 0,3 pp. (EEA, 2017, p. 23). For other countries, the gap was 8,5 percentage points for the Czech Republic; 8,4 pp for Poland; 9,2 pp. for Latvia; 12,6 pp for Lithuania; 13,3 pp. for Slovenia; and 17,6 pp. for Romania; 21,7 pp. for Bulgaria; 23,5 pp. for Croatia; 25,2 pp. for Slovakia and 28,6 pp. for Hungary.

The implementation of the targets of climate-energy package, the EU energy policy until 2030 and the long-term transformation of the EU economy towards a low-carbon economy requires a broad spectrum of activities through diversified instruments. Structural changes require significant financial resources for new investments in generation and storage capacities, energy technologies, energy infrastructure, including transmission and distribution. In 2014 alone, EUR 1,2 billion were allocated to low-carbon technologies under the 7th Research and Innovation Framework Program (Horizon 2020), and around EUR 4,2 billion under public investment and R&D programs in the Member States. Total investments in 2014 in the EU-28 amounted to approximately EUR 27 billion, and private sector investments accounted for 85% of their total value. In the long-term perspective, EU hopes to use the funds from the European Investment Bank, the TEN-E program, the European Fund for Strategic Investments, the European Economic Recovery Plan, the European Fund for Energy, Climate Change and Infrastructure 2020 and the funds available under the European Structural and Investment Funds

(eg. 'Connecting Europe'), funds from the European Neighborhood and Partnership Instrument and the Framework Program for Research and Technological Development.

Integrated Strategic Energy Technology Plan- SET-Plan (SET-Plan) is an important instrument to support science and research on energy technologies and their practical application. It contains 10 priorities, in particular related to: the integration of the European energy market, impact on energy supply, strengthened demand side management, efficiency improvement and achievement of energy and climate policy objectives (Wojtkowska-Łodej *et al.*, 2018). The plan assumes coordination of activities in the area of research between individual countries (including industry), identification of synergies between national research programs and priority areas of EU initiatives and activities.

In addition, an important issue in the EU is the increased financial commitment of Member States and the private sector along with the participation of stakeholders in all parts of the research and innovation chain.

Important issues strengthening solidarity between Member States and regional security of energy supply are new infrastructure connections of strategic importance for the EU (European Commission, 2017) and cross-border connections allowing free flow of energy resources within the single market. On June 22 (2018), the President of the European Commission J.C. Juncker and the heads of the Baltic States and Poland, agreed on a policy plan for the synchronization of power networks with the European continental network by 2025.

Energy security is one of the most fiercely discussed issues related to the energy industry (Nyga-Łukaszewska, 2018). Among many topics discussed there are also considerations regarding the impact of climate policy on energy security. Research showing climate policy-energy security link can be seen in the works of: Cherp *et al.* (2013); Jewell *et al.* (2013); Jewell *et al.* (2014); Guivarch, *et al.* (2015) and Guivarch and Monjon (2017). A common feature of all of these studies is the fact that ambitious climate policy goals impact the energy security.

When analyzing the situation of countries from Central and Eastern Europe, it can be noticed that the impact of the EU climate policy will have multidimensional effects on energy security. The most important consequence related to the implementation of the climate policy is the increase in the share of renewable fuels in primary energy balances. From the point of view of energy security, this is an objective that reduces the energy demand from import. It is distinctly visible that most of the countries in the discussed region, apart from Latvia, Poland, Slovakia and Slovenia, in 2016 met this goal. It is difficult to clearly determine what will be the impact on individual countries of the region, due to their significant dependence on the import of hydrocarbons. The dominance of crude oil and petroleum products in the transport industry on one hand, and restrictions on the dissemination of electric cars on the other hand, are not conducive to improving energy security in oil market.

Another important element from the point of view of energy security is the increase of energy efficiency, often called an additional "fuel" in the country's energy balance. Bearing in mind this feature of energy efficiency, through the more efficient use of energy, the demand for production and import of energy resources decreases. It seems with the course time the countries of Central and Eastern Europe, will have more difficulties to increase energy efficiency due to their energy situation.

The challenges from the point of view of energy security are to a certain extent targets related to greenhouse gas emissions. This is influenced by the fact that the majority of countries in the region are characterized by a high share of solid fuels in primary energy balances. Coal, both lignite and hard, belongs to the group of high-emission fuels. An additional threat to energy security in the region may be the increased consumption of renewable sources presented earlier. This applies in particular to the problem of instability of electricity production produced based on RES (so-called intermittency problem).

The analysis on the situation of the CEE countries proves that in general they are heading the same direction with climate-energy targets. Majority of them have either met selected the goals in 2016 or is close to meeting them. In both of the above given circumstances, CEE countries seem to perform well. Having these observations at hand it is be interesting to compare them with the situation of Germany representing one of the EU "founding members" and the strongest European economy.

In order to do that, authors compare progress in achieving the climate and energy targets set for 2020 between Germany and selected CEE countries. Germany is confronted with the best – Croatia and the worst - Slovakia CEE performer in the selected fields. Areas taken into consideration include targets in final energy consumption, RES share in final energy consumption along with GHG emissions. Countries are compared against their 2016 performance and their 200 targets.

Table 2. Progress of Germany in achieving the climate and energy targets set for 2020 with comparison to selected countries (2016 data)

Country/Target	Germany	Croatia	Slovakia
Final energy consumption (mln toe 2016)	216,4	6,6	10,4
Target: final energy consumption (mln toe) 2020	194,3	7	9
Target met: YES/ NO	NO	YES	NO
RES share in final energy consumption 2016 (%)	14,8	28,3	12
Target: RES share in final energy consumption 2020 (%)	18	20	14
Target met: YES/ NO	NO	YES	NO
GHG emissions (mln t of CO ₂ equivalent 2016)	410,9	14,2	19,7
Target: GHG emissions (mln t of CO ₂ equivalent) 2020	450,4	19,3	25,9
Target met: YES/ NO	NO	YES	YES

Source: own elaboration based on Eurostat database

It is clearly visible that Germany, compared to Croatia and Slovakia, definitely stands out in the scale of targets and actual energy statistics. That is particularly true in case of final energy

consumption and GHG emissions. Just to mention that Germany's GHG emissions are 10 times higher than those of Croatia, and final energy consumption is 20 times bigger than Slovakia's. Even though with RES targets numbers are comparable, due to their relative nature, in absolute numbers the role of renewables in the energy markets is incomparable. Differences in scale are an important feature as they might be regarded as one of the reasons for Germany's poor performance against CEE countries. Comparing Germany with Croatia it is visible that the latter met all the targets in 2016, while the former failed to do this in the same year. To eliminate Germany's discrimination against the best performer, we also compared it with the country from the CEE group, which recorded the weakest results with meeting targets. Slovakia failed to decrease final energy consumption and at the same time increase renewables share in energy structure (2016). However, the same country managed to decrease GHG emissions (in mln t of CO₂ equivalent) in 2016 to 19,7 mln t of CO₂ equivalent against 25,9 assumed as a target. Surprisingly, Germany underperformed with the climate-energy targets even when compared with Slovakia. Both countries had in 2016 similar relative distance to target in renewables share in final energy consumption, reaching in case of Slovakia 2 pp and 3,2 pp in case of Germany. The scale difference between those two is clearly visible in the final energy consumption. Even in relative numbers Slovakia is around 16% behind the target and Germany 11%, for the former that means reduction in energy consumption by ca. 1,4 mln toe and for the latter ca. 22,1 mln toe.

Such situation brings into the light the question of motivation for the CEE countries in reaching climate-energy package especially when they are compared with the European economic superpower, such as Germany. Additionally, strong divergence between CEE countries and Germany in achieving climate-energy package targets might be a proof that new Member States have already picked up "low hanging energy fruits" resulting from their economies transformation.

Conclusions

The long-term changes of the EU economy towards a low-emission economy, made on the basis of a common EU energy policy⁵, were expressed in the Lisbon Strategy, climate policy up to 2030 and long-term low-emission development strategy until 2050 and confirmed in the Energy Union concept (Wojtkowska-Łodej *et al.* 2016, pp.11-41). In order to meet the long-term challenges, financial and institutional support systems have been established at the European level. However, it

⁵ The objectives of EU energy policy are set out in art. 194. paragraph 1 of the Treaty on the Functioning of the European Union (TFEU), and include: ensuring the functioning of the energy market, ensuring security of supply in the Union, promoting energy efficiency and energy savings, as well as developing new and renewable forms of energy, and supporting interconnections between energy networks. At the same time, it is stated that cooperation between Member States is to be sowing the spirit of solidarity and taking place as part of the establishment or functioning of the internal market and taking into account the need to preserve and improve the natural environment.

is worth mentioning that the individual Member States will be of key importance while introducing the strategy goals in the EU energy industry.

EU actions towards the transformation of the energy economy have begun the process of real changes taking place throughout the EU. These activities also provide opportunities for structural economy changes and boosted development of the CEE region countries. The process of structural changes in the economies of the CEE countries towards low-carbon economies has begun, as evidenced by positive trends in the implementation of the objectives of the energy-climate package, but in the long-term it is a significant development challenge for these countries. Implementation of increasingly ambitious climate policy goals may be a challenge to the CEE countries due to their large dependence on energy production from fossil fuels and the transformation of economies in the 1990s. Ambitious climate policy goals have an impact on energy security in the CEE region. This applies both to the structure of energy supply, but also to the way it is used. Majority of countries converge with achieving the goals. They are achieving or close to achieving goals set in the climate-energy strategy. The group of leaders include: Czech Republic, Croatia and Estonia. In the face of new challenges related to the transformation of energy industries in the countries of the region, the financial commitment of the Member States (in addition to EU support) and the private sector will be important. It includes also the participation of stakeholders in all parts of the energy research and innovation chain. Comparing CEE countries with Germany proves that countries are strongly diversified in meeting their goals. Germany performs worse than other CEE economies with achieving goals, however reasons responsible for this might be on one hand difference in scale of German economy and CEE countries and on the other economic transformation Central and Eastern Europe states experienced in the 1990s. If so, CEE countries will face greater challenges with meeting more stringent future goals.

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Table 1. Progress of EU Member States from the Central and Eastern Europe region in achieving the climate and energy targets set for 2020

Region	Final energy consumption (mln toe 2016)	Target: final energy consumption (mln toe) 2020	Target met: YES/ NO	RES share in final energy consumption 2016 (%)	Target: RES share in final energy consumption 2020 (%)	Target met: YES/ NO
Bulgaria	9,7	8,6	NO	18,8	16	YES
Croatia	6,6	7	YES	28,3	20	YES
Czech Republic	24,8	25,3	YES	14,9	13	YES
Estonia	2,8	2,8	YES	28,8	25	YES
Hungary	17,9	14,4	NO	14,2	13	YES
Latvia	3,8	4,5	YES	37,2	40	NO
Lithuania	5,1	4,3	NO	25,6	23	YES
Poland	66,7	71,6	YES	11,3	15	NO
Romania	22,3	30,3	YES	25,0	24	YES
Slovakia	10,4	9	NO	12,0	14	NO
Slovenia	4,9	5,1	YES	21,3	25	NO

Source: own elaboration based on Eurostat database

Improving security governance through cohesive prevention policies in the European Union

Ionut-Daniel MOLDOVAN*

Abstract

Security governance plays an extremely important role in achieving basic stability; every geopolitical context wants to maintain and to perpetuate. the security objective must be perceived both as a sine qua non in insuring current needs, as well as a means to ensure well-drafted mitigation plans for future challenges. The multilevel governance framework must continually focus on emerging threat factors, fast-moving changes in the landscape, people's views and behavior and, perhaps most importantly upon the cultural transformations. The purpose of this paper is to assess the importance of preventive policies and, at the same time, to show how they can lead to good governance. Furthermore, we would like to advance the efficiency of a threat assessment guide on behalf of European institutions, whether there is a clear tool kit commonly put into action, and last but not least, if the instruments of cooperation that these institutions have in their portfolio are enough to forge a strong prevention mechanism. As a result, we will eventually try to demonstrate that decision-makers need to understand the importance of preventive policies and how they can be developed and used to optimize resources and improve development, progress and efficiency, regardless of areas.

Keywords: security governance, prevention policies, risk management

Introduction

Security governance activities involve the development, institutionalization, assessment and improvement of risk management and security policies. Governance of security includes determining how various actors (political actors, organizations, states) should work together to prevent certain threats. Also, the development and sustainment of security governance often involves conducting threat, vulnerability and risk analysis tests that are specific to the local, regional or global environment.

Security paradigms are changing and global vulnerabilities are raised to new levels through globalization, creating new governance strategies at local, national and international levels (Ballantine, 2003). In this context, security discourses introduce and accept notions such as anticipatory risk assessment, preemptive application in internal and external security environments,

* Ionut-Daniel MOLDOVAN is PhD Student, Department of International Studies and Contemporary History, Faculty of History and Philosophy, UBB University, e-mail: ionut.moldovan22@gmail.com.



and widespread use of surveillance tools for proactive monitoring of movements, transactions, etc. (de Goede, 2008).

Our analysis although it is not holistic, it perceives prevention as a central piece in a risk management strategy especially because it creates the opportunity for cooperation among states and organizations with different views and sometimes opposing interests.

Thus, the impetus of this study is given by the dynamics of the concept of prevention and the role that this concept has or ought to have in policies developed at European, national, regional and local levels. The study's objectives are summarized in the following research questions: How are preventive policies found in the broader agenda of security studies? How can security governance be improved with these policies and what are the best solutions for optimizing resources? What is the technical toolkit that determines sustainable and sustainable risk management policies in relation to the benchmark, quality standards and procedural requirements imposed by the EU?

In order to meet our objectives and to answer the research questions, in the first part we will try to give an idea of what the concept of security means and to highlight the changes in the field of security analysis. In the second part, we will discuss governance and security governance while highlighting the importance of risk management in policy-making and decision-making. The third part of this study is dedicated to preventive security policies and we will try to show, after a brief definition of the concept of "prevention", how these policies are applied in the national security strategy. Last but not least, the final section is dedicated to the conclusions.

1. Changes in security strategies

Often, when we talk about security, we assume that we are well informed and understand what security is and what it is. Theoreticians of international studies and security studies have tried to define the main meaning of the term "security" (Wolfers, 1952; Buzan, 1991; Baldwin, 1997; Ullman (1983). However, in the context of increasing globalization and interdependencies between different domains, the concept of security and its constituent elements have undergone, over time, essential changes as well as the attitude of states towards ways of transposing it into life, in relation to changes taking place internationally.

One of the most well-known and old definitions of security belong to Arnold Wolfers: "security, in an objective sense, measures the absence of threats to acquired values, and in a subjective sense, the absence of fear that such values will be attacked" (Wolfers, 1952).

The second definition of security highlights "social security refers to the ability of a society to preserve its essential characteristics in the face of varying circumstances and in spite of potential or

real threats" (Hough, 2004). Social security is compromised when a community perceives a threat to its identity, identity being defined as a set of ideas and practices that identify certain individuals as members of a social group. Thus, cultural transformations and, more importantly, identity as a focal point of international politics, has become increasingly important through the harmonizing pressures of a globalized world and the extension of international civil and human rights that recognize the right to self-expression / self-determination.

William Bloom proposes an identity theory stating that "in order to achieve psychological security, each individual possesses an inwardness of internalization, identifying with the behavior, habits and attitudes of significant figures in his social environment, that is, people are actively seeking strengthen and protect identity. "

Both, the socio-constructivist school and the classical school of Paris studies, recognizing the power of systems of beliefs and collective values, help develop the interest in questions about collective identity and social security. The only difference between these is the degree of variability of self-attributed perceptions by the fact that the latter sees the ethnic security dilemmas between groups as the most problematic while the former recognizes the malleability of perceptions that generate conflicts between groups. This distinction is relevant because it also shows how social security conflicts can be modified, reduced or securitized if some organizations have a comparative advantage because their approach is most reflected in the mechanisms by which the security of society can be achieved.

The end of the Cold War and the end of the conflict between two superpowers left behind a void that was then filled with previously neglected and marginalized aspects that led to new approaches to security studies. Unlike traditional approaches, which mostly focus on military threats typically originating from other states, the new vision implies a broader security concept. The new way of security analysis and thinking has arisen in connection with the end of the Cold War with the publication of "People, States and Fear" by Barry Buzan, who presents a range of international post-war security studies." With reference to the required security, Buzan examines the types of security threats and describes the five broad sectors: military, political, social, economic and environmental, supporting the multilateral approach to security while maintaining a realistic paradigm with a considerable description of the nature of security.

Buzan also describes the security of society as an identity concept: "Concerns about social security, traditional language patterns, culture, religious and national identity, and habits must be maintained at a satisfactory level of development" (Buzan, 1991, p.19). The definition of social security offered by Buzan emphasizes that the threats, in terms of the identity of society, are more likely to be within society than from outside (Buzan, 1991, p. 123). Barry Buzan uses the state as a

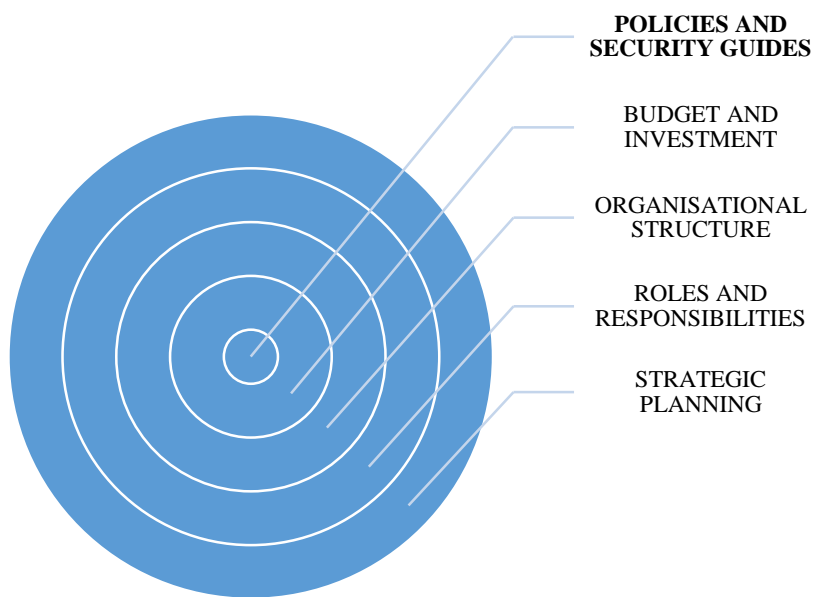
starting point in his analysis, the state being the main actor in security policy and its correlation with individuals, groups, societies, other states, and the international system as a whole. Extending the interest of national security in the field of social security results from the role of the contemporary democratic state, whose duty is to take care of its citizens, regardless of their material status, in order to allow them to take part in social life. For instance, taking into account massive flows of refugees and illicit migration flows, they undermine states' ability to control the borders, and states deal with the following compromises on migration management: through co-operation between states they have to harmonize policies and share information, and then they have to give up a certain degree of autonomy. By eroding, or by perceiving the erosion of the cultural basis of national identity, international migration may favor "the insecurity of society (Waever, 1993, pp. 17-40).

There are close links between security and the conditions for creating interrelations, welfare, liberalizing the economy and consolidating democracy. The main analysis tool uses the sectors that denote the specific logic and the type of interaction between units. For these purposes, the military sector refers to power relations, political sector relations to relations with local authorities, the economic sector to economic relations, the environmental sector to the relationship between man and nature, and the social sector to the relations between social groups. As mentioned above, due to interdependencies, all these sectors overlap and affect each other. As such, considering that most security issues involve a combination of more security sectors in the real world, the analysis needs to be integrated. Globalization can and must be seen as a major factor contributing to the change of the security paradigm as well as to the ongoing change in security strategies. One of the main features of security globalization is combining global threats with local fears.

2. Security governance - policy formulation and decision making

Governance is the assignment of decision-making rights and a framework of responsibility to encourage the desired behavior in decision-making. Security governance needs to provide a framework in which decisions on security issues are aligned with the EU's overall strategy. When it comes to security governance, literature in the field highlights the need to delegate authority and accountability to security responsible actors, thus allowing flexibility in developing appropriate measures to better protect critical points. In the decision-making process, perception is the first step followed by analysis that takes into account the perception and purpose of policy decisions (Brooks, 2011, p. 150). Thus, security governance is linked to intrinsic decision-making, and it is intended to establish directions, set standards and principles, and to focus on prioritizing and directing investment.

Figure 1. Security Governance



Source: author's representation

Essentially, security governance is the process of developing programs, guides, and security policies that respond appropriately to strategic needs identified through risk and threat assessments. It can be seen as a target where focal points are security policies and guides (Figure 1). Then, in order to reach these policies or guides (decision-making), we must begin with strategic planning, continuing with the roles and responsibilities granted or delegated, and creating the organizational structure, and last but not least, with the budget allocated to reach the target.

In recent years, the relationship between the central government and local authorities has undergone transformation. Therefore, the general evolution of the status of local governments in the direction of public policies has also entered the field of security through the development by municipalities of a new approach to addressing issues such as insecurity. Territorial authorities are no longer regarded as mere communication links between the central government and local communities. For example, in the development strategy of Cluj-Napoca "safety is a basic element for the good functioning and development of the local community. One of the most important obligations of the state is to ensure the security of the citizens, both on the territorial administrative area and abroad, according to the legal norms." (The development strategy of Cluj-Napoca 2014-2020). Also, in this strategy is the establishment of a system for identifying and evaluating the problems security and public order, managed by a local structure, the establishment of a joint operational center for managing security, safety and public order issues, including: Cluj-Napoca City Hall, County Police, Local Police, Inspectorate for Emergency Situations, The Gendarmerie, The Romanian Intelligence Service, The National Defense Ministry. It consists of a "combination of symbolic power, cultural

authority and public legitimacy, public security services" facilitating access to information sources together.

Global developments and external structural constraints have forced the EU to change its institutional structure so that it can develop its long-term planning, policy coordination and strategic vision. With the new emerging global order, the EU has entered a world of uncertainty, since "the future of developments remains uncertain". Thus, not only crisis management capacity, but also anticipatory capacity and risk management are increasingly important. As a consequence, the EU needs to strengthen its anticipation and adaptation capability over the next decade in all core policies. Given that "the EU must become strategic", global risk management and anticipatory capacity have become the greatest potential for political power: "Political power derives from the effective management of the risks and challenges that have strayed into our homes and lives: energy security, climate change, financial crisis, demographic change, migration, care systems and social security" (Bauer and Baumann, 2009).

Risk is a complex concept, and in recent years great progress has been made in all key risk areas: hazard, exposure and vulnerability. Risk definition, and in particular risk assessment, are key indicators for action and control decisions. Generally speaking, a security risk can be identified by threats that could exploit one or more vulnerabilities. Once the threat is identified, the risk can be assessed in two directions, namely the likelihood of its occurrence and its impact. The probability and impact assessments are based on the same indicators as those used to identify or measure threats and vulnerabilities. As mentioned above, it is impossible to accurately calculate the risk, but it can be evaluated, for example, as small, medium or large. To make this risk assessment, knowledge, statistics and other endogenous and exogenous factors are generally used, which should generally be sufficient to present and calculate a risk.

When we talk about risk management then we have to follow the following principles (MSG-Management study guide):

- All political decisions at central and local level are taken with prior information and risk acceptance involved;
- The risk management policy should provide for continuous improvement and protection, to take into account the appearance of the black swan and the possible resulting losses;
- All involved must be informed of the risks in their respective areas and of their mitigation measures;
- Risk mitigation measures adopted either at central or local level must be effective in the long term and, as far as possible, be integrated at all decision levels;

- Levels of tolerance at risk levels need to be reviewed and analyzed on a regular basis, thus being consistent with security and development strategies;
- The emergence, evolution and management of risks will be promptly reported;

Nowadays, due to the wealth of existing information, a key challenge for decision-makers addressing risk management is to capitalize on the wealth of knowledge at all levels - local, national, European and global. This whole process of understanding the risks is not a simple one and the data, although accessible, may be partial or erroneous. Moreover, discrepancies in data quality are sometimes argued to delay risk analysis and modeling, but it is infinitely better to launch an evaluation process from the outset on the basis of existing or incomplete data and to analyze the risks than to wait until the data is updated. Risk assessments and risk models are designed to inform decision makers to make informed decisions and to create and implement targeted and effective policies.

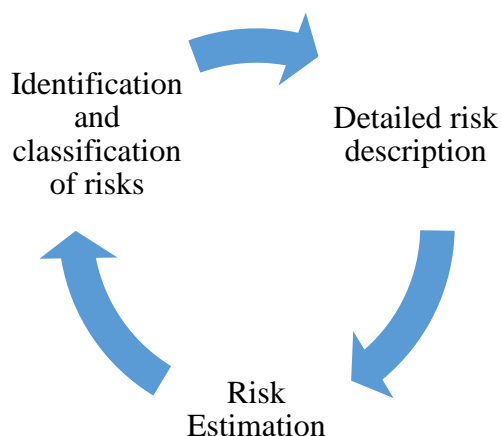
To improve all stages of the risk management cycle, such as impact prevention and mitigation, preparedness, response and recovery after impact, information and knowledge needs to be continually improved, account must be taken of progress in relevant technologies and the results of applied research and the interaction between researchers and end users improved

Understanding and applying policies relevant to risk management can help in strengthening the link between information owners (risk assessors, information analysts, researchers) and policy decision makers, and improving your prevention and mitigation, training, response and recovery strategy. A very important role in risk management has the risk communication aspect being extremely relevant for decision-makers, practitioners and citizen. The purpose of risk communication is to prevent and mitigate the damage, to prepare citizens from vulnerable areas before an event occurs and to validate, disseminate corroborate information from different sources at the time of the event and in the recovery phase. The EU uses risk communication as an integrated element of the risk management process. There is some direct communication between the EU and the citizens of the Member States through directives that are transposed by national governments.

The risk management process involves several stages (MSG-Management study guide):

- **The risk assessment** process is, in principle, a cyclical process that requires continuous attention because, on the one hand, the threats are constantly changing and on the other hand the risks already assessed must be kept within acceptable limits. This assessment process has three main steps: risk identification and classification, detailed risk description and risk estimation (probability, impact, and possible policies or preventive measures) (please see Figure 2).

Figure 2. Risk assessment



Source: author's representation

As far as the identification of risks is concerned, they can be divided into:

- **Strategic risks** are typically influenced by external events and trends (such as government policies, or changing stakeholder requirements);
- **Internal risks** these risks are associated with impediments to the development of policies and strategies (the interests and influence of third parties in targeting certain policies);
- **Operational or procedural risks**, these risks are associated with uncertainties about the implementation of risk management procedures or security strategies at national, regional or local level.
- **Risk Description**, a more accurate description of the risk helps to understand the nature, the amount of risk and its possible impact as well as identifying possible measures to be taken for mitigation.
- **Risk Estimation** in this process, the consequences of the events resulting from the materialization of risk must be quantified by the worst case scenario. For threats that cannot be prevented, a response strategy must be established that minimizes damage.

The impact of disasters has increased significantly in recent years, partly as a result of climate change, rapid and unplanned urbanization, changes in population structures and environmental degradation (European Commission 2014). The European Union needs a set of complex objectives with a clear vision and implementation must be managed by a type of meta-governmental institution. A governance initiative was launched in early 2009, clearly presenting the complexity of governance: "The Council recognizes the multidimensional nature of governance, including political, social, economic, security, legal, institutional, cultural and environmental issues, at all levels. All these

aspects are interconnected and should be addressed in a holistic and balanced way” (Council of the European Union, 1 December 2009 15265/1/09).

The Europe 2020 Strategy has brought a new declaration on the EU mission and will lead to the rejuvenation of the EU through the new Strategic Program. The governance line of the Europe 2020 strategy must be taken into account from a long-term perspective of EU institutionalization. Integrating Community and national levels as a radical reform of the governance line is one of the main prerequisites for the success of the Europe 2020 strategy: "Open method of coordination has failed as an instrument because it does not provide effective control, ie the mechanism for common objectives. The current state of play allows the Member States to integrate European objectives into national interests, thus making a policy based on the changing situation in the field. Without a solid and binding coordination, macroeconomic management at European level will be pursued in vain, combined with a new way of cooperation - actually depends on it" (Regulation (EU) No. 1303/2013).

Often, the EU's ability to formulate common positions and exert influence focuses on traditional areas of foreign, security and defense policy. However, difficulties are encountered in the development of common positions due to the fact that Member States remain protected from national sovereignty. No country can be fully prepared for all kinds of disasters, it cannot cope with the risks alone but must act together through a coordinated joint response. Decision makers and those responsible for risk management in EU policies rely increasingly on knowledge and information at all levels - local, national, European and global - and apply them at all stages of the cycle: prevention and mitigation, preparedness, response and recovery.

The European Union consultation processes aim to understand the concerns of stakeholders before legislators can relate policies in the field of risk management. Upon conclusion of the consultations, the Commission develops legislative proposals on risk management from the information gathered and analyzing the current state of the risks or the uncertainty. The Explanatory Memorandum is then drawn up which accompanies any legislative proposal that is passed on to decision-makers in the European Parliament and the Council, with the role of providing policy-makers with a clear picture of the reasoning for which such action is needed. Information on hazards, risks and uncertainties is part of the justification for the regulatory activity provided to the governments of the Member States, citizens and other stakeholders.

3. Preventive security policies

Prevention is seen as a good thing even more, while it refers to areas of particular importance to security, it becomes more attractive, including from a political point of view. Thus, prevention is

often used in political discourse and has a determining role in securing a certain problem. For example, in the recent period, due to the increased emphasis on radicalization, terrorism and organized crime, it has gradually prepared the way for proactive and preventive engagement using monitoring as a regular means of controlling human behavior.

The dictionary defines the prevention “of taking all necessary precautions to avoid something happening or avoiding harm through timely action”. For example, when we talk about environmental policies, the goal is to prevent the deterioration and protection of natural resources so that the environment can continue to support human wellbeing not only now but also for future generations.

Environmental prevention policies include measures to protect forests, stimulate the circular economy based on re-use and recycling of materials instead of disposal, and reduce greenhouse gas emissions to mitigate climate change. In terms of economic policies and strategies, one objective is to prevent the types of malfunctions that can lead to the emergence of crises: over-indebtedness of consumers, non-performing loans, global speculation through complex financial instruments, etc. In this case, effective regulation and monitoring of financial / banking institutions to reduce speculation can be seen as a preventive measure.

“Prevention is a product of modernity, being linked to well-being and the authority of professional and scientific expertise” (Freeman, 1999, pp. 232-241). Prevention policies are built on two fundamental pillars the first of which is that of scientific research on cause and effect and prediction and the second aspect, as I mentioned above, the prevention policy involves some controlled intervention in social life and an acceptance of this situation.

Nowadays, security strategies are constantly updated and are now focusing on the merger between internal and external security. Therefore, there is an interconnection between different approaches within the different security strategies that have been developed at local, national and international level.

Looking at the national state level within the European Union, it is interesting to analyze the argumentation of the prevention from the National Security Strategies. For example, Romania, in *The National Defense Strategy* of the country, argues that the international landscape has changed, that the global paradigm shift is characterized by several developments and that the need to extend the concept of national security is also motivated by ensuring the convergence with the European security principles developed in the European Security Strategy and the Internal Security Strategy of the European Union, where security and development are placed in a direct proportionality relationship. Moreover, the document recognizes and presents a significant change in the security landscape, where national security cannot be individually secured by any state, the new challenges of the security environment requiring effective and operative collaboration within international cooperation

mechanisms and partnerships. It also refers to the national security objectives and directions that aim to strengthen national military and civilian capabilities to standards that allow prevention, deterrence and defense against any aggressive actions against our country as well as risk prevention, countering threats and limiting vulnerability.

Therefore, switching to early (preventative) interventions, even beyond national borders, is visible: "Providing mechanisms for preventing and counteracting cyber-attacks on information infrastructures of strategic interest associated with promoting national and international interests in the field of cyber security" (National Defense Strategy for the period 2015-2019). Moreover, these National Security Strategies observe the spread of security threats and attempt to establish an integrated risk assessment and a multi-agency approach. Several vital interests, especially territorial, economic, environmental, ecological and socio-economic, are identified. In addition, these strategies attempt to build a forward-looking forecast over a certain time horizon, based on risk assessment and scenario creation, while making them compatible with international security strategies.

The EU Security Strategy supports an integrated approach with a prominent position in the field of prevention. The main threats identified by the Security Strategy are largely identified in the National Security Strategies: terrorism and violent religious extremism; the proliferation of weapons of mass destruction, including the proliferation of missile technology; regional conflicts; and organized crime. The EU Security Strategy also proposes "Joint Actions" based on joint identification and joint risk assessment: Sharing information between Member States and EU partners is therefore strongly promoted. The merger between internal and external security appears to prepare the context for increased focus on extraterritorial engagement, in combination with an early intervention doctrine.

All decision-makers and actors in the security sphere, whether acting at national or international level, seem to have devised a preventive strategy who offers them legitimate arguments to proactively intervene, meaning that intervention beyond their own territory is considered necessary to protect their own security. Prevention is influenced by ideas and ideologies by opinion groups on what governments and policy makers can do and should do. These ideological predispositions and paradigm conflicts form the objectives, the sphere and the nature of the preventive strategies. Moreover, the development of security policies often hides different interests. These include lobby groups, dominant economic actors, and trade union representatives.

Conclusions

Throughout history, the approach to peace, stability and security has been dominated by the reaction to the conflict, and it has proved difficult to persuade decision-makers to invest in prevention.

Furthermore, the OECD in the Fragility Report of 2016 sets out: “ODA is focused on the symptom rather than the factors and the root causes of fragility”. Contributors are advised to “invest in prevention” because (...) prevention saves lives, resources and money.”

Focusing on treatment rather than on problem prevention has proved to be totally ineffective, at least in the short or medium term and especially in the context of developing countries. Prevention is not just a moral imperative for international bodies. Prevention is also a very important aspect from the perspective of development, progress and efficiency regardless of the areas.

The purpose of investing in preventive security policies is to mitigate or prevent risks by allocating resources through an integrated, continuous, multiannual and rigorous planning process to develop appropriate systems for timely discovery of hazards, risks and threats, with a view to preventing their production through the combined use of both military and civilian instruments.

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Russian policy, Russian Armenians and Armenia: ethnic minority or political leverage?

Aram TERZIAN*

Abstract

The 2018 “Velvet revolution” in Armenia has raised numerous questions regarding its possible implications for Armenian-Russian relations. Given that there was a tendency for revolutions in post-Soviet countries to significantly influence their relations with Russia, it would be easy to jump to far-reaching conclusions about Armenia’s possible foreign policy changes. This paper explores the potential of the diasporic influence of the Armenian community in Russia over Armenian-Russian relations in the light of the Russian policy towards further consolidating its control over post-Velvet Revolution Armenia. The study is based on qualitative research methods elaborating an in-depth case analysis through process tracing. It posits that Armenia remains highly susceptible to the diasporic influence, emanating particularly from the Armenian community in Russia, that, along with other political and economic constraints, determines Armenia’s unwavering allegiance to Russia. In doing so, the paper aims to enquire into the potential for the Armenian Diaspora to influence homeland’s foreign policy.

Keywords: Armenia, Velvet Revolution, Russia, Russian Armenians, Eurasian Integration, diasporic influence

Introduction

The 2018 “Velvet revolution” in Armenia has raised a series of questions regarding both its domestic as well as foreign policy implications. Given the revolution leader’s critical stances on Armenia’s plight in the Russia-led unions, it would be easy to resort to speculations about possible foreign policy changes. This paper focuses on the diasporic influence of the Armenian community in Russia over Armenian-Russian relations in the light of the Russian policy towards further consolidating its control over post-Velvet Revolution Armenia. There is a lot of scholarship on the domestic state of affairs in Armenia and consideration of the combined effects of tough economic contexts, geopolitical fragility and other ways in which the specific ‘Armenian reality’ affects Armenia’s political and economic landscape (Kostanyan and Giragosian, 2017; Aberg and Terzyan,

* Aram Terzyan, PhD, is a visiting senior lecturer at UNESCO Chair of Human Rights, Democracy and European Studies of Brusov State University of Languages and Social Sciences and research fellow at Eurasian Research and Analysis Institute, USA. E-mail: aramterzyan@gmail.com.



2018; Markarov and Davtyan, 2018; Delcour, 2018). Meanwhile, the issues pertaining to powerful diasporic influences on Post-Velvet Revolution' Armenia have been largely overlooked.

Remarkably, there has been a growing tendency among IR scholars to treat diaspora as a unit of analysis in the field of international relations, with a special focus on the extent of diasporic influence on homeland foreign policy. Shain and Barth (2003) suggest that diasporic influences can best be understood by situating them in the 'theoretical space' shared by constructivism and liberalism; two approaches that acknowledge the impact of identity and domestic politics on international behaviour. Essentially, diasporas' identity-based motivations should be an integral part of the constructivist effort to explain the formation of national identities (Shain and Barth, 2003). Sheffer (2006) distinguishes between "transnational communities" and "ethnonational-religious diasporas". He argues that while the identities, goals, and international activities of transnational communities are varied and can change, particularly as their members become assimilated into their host societies, ethno-national-religious diasporas persistently identify with their national homelands and, as a result, resist aspects of assimilation that might diminish either their identities or their involvements in homeland politics. Rather, ethno-national-religious diasporas seek to deepen the unity of their ethnic and national identifications with their homelands' borders and politics (De Wind and Segura, 2014, pp. 11-13). Essentially, this is the core rationale behind diasporas' desire to influence homeland domestic politics and foreign policy.

Notably, there has been a tendency among Russian scholars to treat diasporas in Russia as critical factors in maintaining and further deepening ties between former Soviet countries and Russia (Halmukhamedov, 1999; Lubsky *et al.*, 2016). Some authors put the diasporas in the framework of the "Russian World" – the narrative that has become a major factor in the development of Russia's post-Soviet national identity and its engagement with the Eurasian geopolitical landscape (Zevelev, 2016).

Admittedly, the Armenian Diaspora in Russia has significantly influenced Armenia's foreign policy, and in particular its choice of the 'Russia-led' trajectories. Russia is home to around 2.5 million Armenian migrants, whose remittances account for over 13 percent of Armenia's GDP (World Bank, 2017).

This has enabled Russia to further absorb Armenia into its ranks, given Armenia's concerns that Armenian migrants would be severely mistreated by Russian authorities in case of its 'deviation' from the Russia-led trajectory. This assumption is based on the Russian authorities' large-scale crackdown on the Georgian population in Russia, following Georgia's decision to move beyond the orbit of the Russian influence and pursue deeper partnership with the EU and NATO.

The paper addresses the following research questions: 1. What are Russian policy priorities vis-à-vis Armenia, particularly, within its strategy for Eurasian integration? 2. What is the actual and potential influence of the Armenian community in Russia over Armenian-Russian relations.

This paper argues that along with other economic and political tools, Russia has consistently used the Armenian community to step up its influence over Armenia and suppress its European foreign policy aspirations. The study is based on qualitative research methods elaborating an in-depth case analysis through process tracing.

In terms of data, the research relies on two main sources. First, it relies on *open source information* websites, documents and speeches. Second, it relies on *semi-structured elite interviews*. These interviews have been conducted between February 2015 and April 2018 in Yerevan, Moscow and Brussels. The respondents for these interviews have been selected through a combination of purposive sampling (selecting respondents on the basis of their alleged knowledge or centrality in the policy process) and snowball sampling (asking each respondent for other possible interviewees).

1. New Government, old constraints: Armenia's "Russia problem"

The Russian imperial tradition has played a critical role in determining Russian relations with the newly-independent states since the break-up of the Soviet Union. More specifically, the shift in the Russian leadership's foreign policy thinking from 'liberal ideas' to geopolitical and particularly pragmatic geoeconomic realism in the early stage of Putin's presidency (Thorun, 2009, p. 28) significantly determined policy priorities towards the newly independent CIS states. The ambition to restore Russia's 'greatness' and in particular to regain control in its traditional 'sphere of influence' prompted Putin to renew and promote the so-called 'CIS project'. The latter was designed to step up the Russian influence in its backyard and crush CIS states' pro-Western foreign policy pursuits (Secreiru, 2006; Skak, 2011).

To this purpose, the Russian leadership embarked on increasing its economic presence and reinforcing its military presence in CIS countries. The takeover and monopolization of strategic economic and energy infrastructures in CIS countries was put at the heart of the Russian policy. (Secrieru, 2006).

The renewed 'CIS project' yielded considerable results in Armenia. More precisely, Armenian and Russian Presidents came up with the so called 'mutually beneficial' 'assets-for-debt' swap that would gradually but immensely step up Russian influence in the Armenian economy since the fall of 2001 (Eurasianet, 2002). The recipe is simple: in exchange for a write-off of its around \$100 million debt incurred since 1991, Armenia agreed to transfer strategic state-owned assets to Russia, including

six hydroelectric power plants (Eurasianet, 2003). Moreover, in 2003, Armenia ratified an agreement that allowed Russian RAO Unified Energy Systems (UES) to take over the financial control of the Medzamor nuclear power plant, accounting for about 40 percent of Armenian electricity production (Azatutyun, 2003). Overall, Russia took over around 90 percent of Armenia's power generating capacities. Besides, within the 'assets-for-debt' swap arrangements, Kocharyan's government handed over Armenia's largest cement factory to the Russian ITERA gas exporter in payment for its \$10 million debt for past gas deliveries (Eurasianet, 2003).

Furthermore, in 2013 Armenia ceded control over all its natural gas infrastructure to the Russian energy firm Gazprom, in payment for a \$300 million debt to Gazprom, which it incurred as a result of secretly subsidizing the Russian gas price from 2011-2013. In return for writing off the debt, Gazprom was also granted 30-year exclusive rights in the Armenian energy market (Asbarez, 2014).

Russia has repeatedly used Gazprom's "energy weapon" to manipulate gas prices and thus exert political influence over the Armenian Government. Gazprom increased gas prices for Armenia by 50 percent and threatened to further increase it in case Armenia refused to join the Russia-dominated Eurasian Economic Union (Asbarez, 2013).

Remarkably, former President Serzh Sargsyan candidly admitted that Armenia was forced to join the Eurasian Economic Union instead of signing the Association Agreement with the European Union. "our choice is not civilizational. It corresponds to the economic interests of our nation. We cannot sign the Association Agreement and increase gas price and electricity fee three times?" (Terzyan, 2017, p. 191).

Ironically, Gazprom decreased gas prices as Armenia decided to join the EAEU. Yet, Russia raised the price for the gas it sells to Armenia by 10 percent in 2019. The price increase is "symptomatic of how the Kremlin is exploiting Armenia's heavy dependence on Russian hydrocarbons, using gas supply as a political instrument to put pressure on the Pashinyan-led Government," Eduard Abrahamyan, a London-based analyst of Armenia (Eurasianet, 2019). Clearly, by using Gazprom's energy weapon and increasing gas prices for Armenia, Russia strives to consolidate its influence over post-Velvet Revolution Armenia and suppress its desire to deepen partnership with the European Union and the United States (1in.am, 2018).

Notably, in an attempt to fight against Gazprom's malpractices, the new Armenian Government launched an investigation in Gazprom Armenia and which led to finding a series of irregularities and even to accusing it of tax evasion and corruption (Rferl, 2018).

Ironically, as noted earlier in response to Armenian government's bold attempt to hold Gazprom Armenia accountable, Gazprom determined to increase gas prices in 2019.

It is worth to note that as a single country, Russia is the main external trade partner of Armenia, being the destination for 20 per cent of Armenian exports and source of 70 per cent of remittances (Worldbank, 2015). Russia also maintains lead in the realm of foreign investments in Armenia. According to official information, there are about 1,400 enterprises with Russian capital, which is over one fourth of all economic entities with involvement of foreign capital (Sargsyan, 2017).

Alongside the economic leverage, security linkage and leverage also comprise a significant aspect of the Armenia-Russia relationship. The Russian 102nd Military Base is located in the Armenian city of Gyumri, while the Russian 3624th airbase is located at Erebuni Airport, near Yerevan. Russian troops also patrol both the Armenia-Iran and Armenia-Turkey borders (Roberts and Ziemer, 2018, pp. 155-156).

Studies show that the turbulent landscape of the South Caucasus region, fraught with Armenia's troubled relations with neighbouring Azerbaijan and Turkey has significantly contributed to Russia's treatment as strategic security ally in Armenian political thinking.

More specifically, the core argument dominating the Armenian discourse has centred on the irreplaceability of the Armenian-Russian security alliance as a critical bulwark against security threats stemming from neighbouring Azerbaijan and Turkey (Terzyan, 2016, p 158). There has been a broad consensus among the Armenian political leadership on the vital importance of Armenia-Russia security partnership and the fact that Russian troops located across the Armenian-Turkish border significantly shield Armenia from Turkish-Azerbaijani hostilities and thus lead to treat Russia as 'security provider' (Terzyan, 2018, pp. 159-160).

Remarkably, to describe Armenia's plight in the hostile neighbourhood with Turkey, the former Chairman of the permanent commission on external relations of the Armenian Parliament Armen Ashotyan referred to the quote "Poor Mexico, so far from God, and so close to the United States" and added that this image of the US could be completely projected to Turkey. In doing so he justified the choice of the Russia-led Eurasian Economic Union and framed it as indispensable to Armenia's security in the face of the Turkish menace (Aravot, 2017).

Given the newly-elected prime minister Nikol Pashinyan's critical stances on Armenia's plight in Russia-led unions, it would be easy to resort to speculations about possible foreign policy changes and Armenia's advancement towards the EU. Notably, in the fall of 2017 Pashinyan-led "Yelk" parliamentary faction submitted a bill proposing Armenia's withdrawal from the Russia-led Eurasian Economic Union – framed as a dormant union detrimental to country's interests (Azatutyun, 2017).

Yet, from the very beginning of his prime ministership Pashinyan fundamentally reframed the portrayal of the EAEU and the Armenian-Russian partnership.

During the first meeting with the Russian President Pashinyan particularly noted: “We have things to discuss, but there are also things that do not need any discussion. That is the strategic relationship of allies between Armenia and Russia ... I can assure you that in Armenia there is a consensus and nobody has ever doubted the importance of the strategic nature of Armenian Russian relations” (Reuters, 2018). Moreover, he confirmed Armenia’s commitment to deepening further integration in the Eurasian Economic Union, framing it as beneficial to the country: “Armenia is eager to see the furtherance of integration processes in the Eurasian Economic Union. We are ready to do our best to further develop the integration-targeted institutions and find new ways and mechanisms for cooperation” (Primeminister, 2018).

The dramatic changes of Pashinyan’s discourse suggest that the power transition in Armenia has not led to revising Armenian-Russian relations and, more precisely, Armenia’s membership in the Russia-led EAEU.

2. Russian policy priorities in Armenia within the Eurasian strategy

Within its strategy of promoting the Eurasian integration within the Eurasian Economic Union and beyond, Russia has embarked on consolidating its influence over Armenia’s NGO sector given NGOs prominent role in mobilising protestors and organizing anti-Government protests that led to revolutions in Georgia, Ukraine and Kyrgyzstan.

In May 2014 the Russian ambassador Ivan Volynkin framed Western- funded NGOs as threats to Armenian-Russian relations and called for them to be ‘neutralised’ through information campaigns and other methods (Armeniahow, 2015). These methods included legal moves to regulate the activities of NGOs, in what was widely interpreted as a call for Armenia to adopt Russian-style legislation (Roberts and Ziemer, 2018, pp. 157-158). Consistent with this rhetoric in February 2015 the Head of the Russian Federation Council’s International Committee, Konstantin Kosachev subjected the Armenian NGOs to fierce criticism and claimed that around 350 Armenian NGOs were actively agitating against Eurasian integration in favour of the EU (Eurasianet, 2015).

Russian mounting pressure yielded desired results and led to amendments to existing NGO legislation (2017) in Armenia, enabling Russia to further push for policy convergence.

In essence, the new legislation is indicative of Russia’s authoritarianism promotion and projection of repressive policies onto CIS countries. Along with other amendments, the updated NGO law allows the government to rescind the registration of any non-profit that twice failed to comply with the requirements. The most controversial provision of the legislation gives Justice Ministry officials the right to attend non-profits’ board meetings. Human Right observer Armine Sahakyan

notes that Russia's push for Armenia to adopt anti-NGO legislation is just the latest sign of its determination to mould Armenia into a loyal vassal that does its bidding with no questions asked: "Russia sees Armenian anti-NGO legislation as a way to ensure that its neighbor toes the Kremlin line" (Euractiv, 2015).

Moreover, within its strategy for Eurasian integration Russia has routinely pushed for Russian language adoption as official language in Armenia. This policy is consistent with Russian President Vladimir Putin's discourse on "Russian world" (Zevelev, 2016) – Russian - dominated union of post-Soviet countries, where the promotion of Russian language is a way to step up Russian cultural, economic and political influence over those countries.

During his visit to Armenia in 2014 the Kremlin's outstanding media personality D. Kiselyov noted that 'if Armenians want to feel safe, they have got to speak Russian...Russian culture is becoming of secondary importance. Russia, in the Collective Security Treaty Organization framework, took upon itself providing security for Armenia. And what is happening to the Russian language in Armenia? It is simply disappearing.... The question is what is Armenia doing not to let this happen" (Eurasianet, 2014). Similarly, former Russian ambassador to Armenia V. Kovalenko noted "You can't choose one union for security-related integration and another one for cultural purposes" (Eurasianet, 2014). It follows, that Armenia is forced to put aside its own identity and preferences and abide by Russian economic, political and cultural rules.

No wonder, in 2017 Russian officials suggested that it might be a good idea for Armenia to adopt Russian as an official language. The suggestion emerged after the Russian Duma adopted a law, on July 12, 2017 allowing drivers from Eurasian Union countries to work as commercial drivers in Russia, but only if those countries recognize Russian as an official language. "In this way we're providing encouragement to governments which respect the Russian language and enshrine it in their constitutions and recognize it officially," said Leonid Kalashnikov, a Duma member and one of the law's authors (Eurasianet, 2017). In practice that means that to avoid further inconvenience, Armenia would have to follow the paths of Belarus, Kazakhstan, and Kyrgyzstan -- all of which recognize Russian as an official language. Thus, by putting constraints on Armenian drivers, Russia pushed for Armenia's smooth absorption into the 'Russian club'.

Yet, Russian imperial policy towards forcing Armenia to adopt Russian as official language Armenia has not resonated with the Armenian society. Huge public resistance prevented the proposal from passing into a law. Notably, Russian imperial policies have triggered anxieties across the Armenian population and sparked a series of anti-Russian protests. Anti-Russian protests came to a head in 2016, following the 'April War' eruption between the armed forces of Armenia and Azerbaijan. The supply of Russian military hardware to Azerbaijan engendered enormous antipathy

towards Russia and led to protests in Armenia. More precisely, hundreds of Armenians demonstrated in Yerevan against Russian weapon sales to Azerbaijan, claiming the sales led to the outbreak of fighting (Armenianweekly, 2016). The protesters, mostly young activists, marched to the Russian Embassy in Yerevan chanting "Shame!" and "Free, independent Armenia!" A petition read out by a protest organizer demanded an immediate end to all deliveries of Russian weapons to Azerbaijan (Rferl, 2016).

The prevalence of anti-Russian attitudes in Armenia prompted Russia into action. Attributing the protests against Russia's policy to Western-funded NGOs, Russia put immense pressure on Armenia to pass its above-mentioned notorious anti-NGO legislation. Besides, Russia would use its propaganda machine to intimidate the Armenian population, by threatening to punish Armenia, in the form of increasing Russian gas prices, further arming Azerbaijan and even mistreating Russian Armenians (Terzyan, 2017, p.192).

Russian interferences in Armenia's domestic affairs are nothing new. Notably, during his first meeting with Russian President, the Armenian Prime Minister Nikol Pashinyan gave credit to the 'balanced position' that Russia took during the internal political crisis, predating the revolution in Armenia, meaning that Russia did not back incumbents' 'right' to crush protests (Eurasianet, 2018).

To give an idea about Russia's influence over Armenia's domestic politics, it is worth noting that Armenian former Defence Minister Mikael Harutyunyan has held Russian citizenship since 2002. Based on this, Russian law enforcement authorities canceled an arrest warrant issued by Armenia for its former defense minister who is under investigation in Armenia on charges of breaching the country's constitutional order during the March 1, 2008 post-election protest standoff that resulted in the deaths of eight civilians and two police officers (Asbarez, 2018).

Overall, as the next section suggests along with other economic and political factors, the one of the large Armenian community has been critical to increasing Russian influence over Armenia.

3. The 'Georgian Lesson' of Russian Armenians and Armenia

Russia possesses the largest Armenian population outside of Armenia proper, making it home to the largest community in the Armenian diaspora. Essentially, irregular migration and large-scale brain-drain remains one of the most harrowing challenges facing Armenia. The economic disarray has inflicted severe hardships on the Armenian population, forcing them to flee the country. Studies show that in the intracensus period of 2001 and 2011, the resident population fell from 3.2 to 3.0 million persons. The annual net migration balance passed instead from -23,100 in 1995-2001 to -32,000 in 2002- 2011 (Migration Policy Centre, 2013). Not surprisingly, today the Armenian

population of Russia estimates around 2.5 million according to various surveys, and Russia ranks as the first country in terms of labour migration from Armenia (Aleksanyan, 2015). More specifically, seasonal labour migration to particularly Russia has constituted a crucial survival strategy for many Armenian households to this day. Russia is most popular destination for Armenian migrants and according to the official data, more than 95 per cent of seasonal and 75 per cent of long-term migrants work in Russia (Terzyan, 2019, p. 105). Annually, more than 200,000 Armenians go to Russia for seasonal employment (Emerging-Europe, 2018). Remittances sent to Armenia from Russia by individuals increased by 14.6% in 2017 (Intellinews, 2017). Meanwhile, the 2016 World Bank data suggests that Armenia was in 21st place worldwide among the most remittance-dependent countries, with personal remittances received accounting for 13.1% of GDP (World Bank, 2017).

Given that Armenia's membership in the EAEU eliminates visa-related-barriers and thus facilitates the free movement of Armenian labour force, massive outflow of Armenian population to Russia seems bound to continue. Remarkably, the Armenian officials deem country's membership in the EAEU conducive to facilitating labor migration to Russia (Terzyan, 2019, p. 105). Essentially, Russia, has not tended to oppose to the influxes of the Armenian population. Rather it has skillfully used large Armenian community to further drive Armenia into the orbit of its economic and political influence.

Notably, in 2012 during a meeting with Russian President, in response to the President of the Union of Armenians in Russia Ara Abrahamyan's contention that around two million Russian Armenians support Vladimir Putin, the latter sarcastically asked: "how many Armenians are living in Armenia?...according to Russian estimates their number is less than 3.2 million" (Aravot, 2013). Clearly, Putin's irony stems from growing number of Armenians in Russia, leading to a situation where Russia may become home to the largest Armenian population.

Unsurprisingly, there was a tendency among the EU officials from the External Action Service, to treat the large Armenian community in Russia as a major driving force behind Armenia's unwavering commitment to the strategic alliance with Russia. This contention comes down to the point that Russian Armenians would be safer with Armenia consistently playing by the Kremlin rules and thus avoiding to anger Russia and Russians.¹

Similarly, Armenia's Parliament Members tended to regard the Armenian community as one of the most sensitive issues in Armenian-Russian relations, which if neglected, could impose heavy costs on the Armenian population. No wonder, some Parliament Members were quick to cite the "Georgian lesson."² Meanwhile, Russian Armenian community members would contend that the

¹ Interviews with EEAS – related officials from September 2015 to February 2016.

² Interviews with Armenian Parliament Members from February 2015 to April 2018.

growing number of the Armenian population in Russia positively affects Armenian –Russian comprehensive partnership and further feeds the sense of “brotherhood.”³ This is considerably consistent with Russian scholars’ mainstream treatment of diasporas in Russia as critical factors in maintaining and further deepening ties between former Soviet countries and Russia (Halmukhamedov, 1999; Lubsky *et al.* 2016). Some authors put the diasporas in the framework of the “Russian World” – the narrative that has become a major factor in the development of Russia’s post-Soviet national identity and its engagement with the Eurasian geopolitical landscape (Zevelev, 2016).

Interestingly, research shows that Russia has encouraged powerful Russian Armenian tycoons to expand their economic presence in Armenia as a way to step up its influence over the Armenian economy. Armenian-born billionaire Samvel Karapetyan’s growing economic presence in Armenia could therefore be attributed to Russian policy. David Petrosian, a Yerevan-based analyst who closely monitors Russian-Armenian dealings, suggested the Russian government is “encouraging” such investments out of a belief that they will bolster the Kremlin’s strong position in Armenia (Eurasianet, 2017). Karapetyan’s Tashir group bought Armenia’s power distribution network in 2015. In August 2017, the Armenian government announced that the national electricity transmission company would also be managed by Tashir (Eurasianet, 2017).

Notably, the discourse on Armenia’s membership in the EAEU – has been characterized by a strong emphasis on the large Armenian community in Russia as a major factor for Armenia’s decision to join the EAEU.

There are concerns that Armenian migrants might be severely mistreated by Russian authorities in case of Armenia’s “deviation” from the Russian-led foreign policy trajectory. This assumption is based on the Russian authorities’ massive crackdown on the Georgian population in Russia, in response to Georgia’s mounting rapprochement with the EU and NATO (Terzyan 2016b, pp 172-173). It is perhaps for this reason that Ara Abrahamyan gave credit to Armenia’s decision to join the EAEU, emphasizing its security implications for the Armenian community in Russia (Terzyan, 2018b, p. 237).

In fact, the Armenian leadership and Russian Armenians have well learned the ‘Georgian lesson’, i.e Russian response to Georgia’s European and Euro-Atlantic aspirations. More specifically, in October and November of 2006, under the banner of ‘fight against irregular migration and organized crime’ Russian authorities detained thousands of Georgians and expelled more than 2,300 of them to Georgia, including many Georgians residing legally in Russia. Credible reports suggest that detentions occurred with blatant disregard for basic human rights and decency. Georgians were

³ Interviews with Armenian community members in Moscow in August 2017.

held in appalling conditions and were subjected to a wide range of abuses amounting to torture. Two Georgians died in custody awaiting expulsion (HRW, 2007).

The Russian Government's campaign against ethnic Georgians occurred in the context of Georgia's growing attempts to redefine inherently asymmetric relations with Russia and thus pull the country out of the Russian authoritarian influence.

In an attempt to punish Georgia's 'deviant behaviour', along with other measures, targeted Georgian population in Russia. Russian officials made repeated public statements framing Georgians as illegal immigrants, criminals, and calling for measures to be taken against them. Russian television stations, the largest of which are owned or controlled by people close to the Russian Government, actively supported and justified the latter's discrimination against Georgians through daily news programs and other programming, and often quoted senior officials making strong anti-Georgian statements (HRW, 2007).

Concurrently, Moscow police began to conduct widespread "document inspections" of ethnic Georgians. Some police officers targeted locations where Georgians were likely to assemble, such as the entrance to the Georgian embassy and to the Georgian Orthodox Church in Moscow. In several districts of Moscow, police demanded that schools produce lists of names of all ethnic Georgian children and their parents (Humanrightshouse, 2006). The crackdown spilled over into other parts of Russia and resulted in unlawful detention of thousands of ethnic Georgians.

All this prompted Georgian President Micheil Saakashvili to posit that Russia cannot simply tolerate Georgia's transformation into a European democratic and prosperous state, which would no longer be susceptible to Russian coercive policy. Georgia's experience of successful reforms and the path to European democracies angered Russia and prompted to 'correct its deviant behaviour' with the view to hinder democracy promotion throughout the post-Soviet region. 'This is why the Georgian nation has suffered an embargo, a war, an invasion, and an occupation — all since 2006' (Saakashviliarchive, 2013).

The situation came to head in 2008, fraught with the war incited against 'disobedient' Georgia, with all ensuing consequences. In Saakashvili's words, Russian aggression came as no surprise given its resolution to crush the young democracy "After a long embargo, economic blockades, provocations, bombardments, threats, boycotts and other rough but finally not successful pressures of the old KGB followers decided to finish the so-called "Georgian project", our common attempt to create a modern, European, democratic, successful state in Caucasus" (Saakashviliarchive, 2009).

Overall, along with other issues, the mistreatment of Georgian population in Russia sent ripples of apprehension into Armenia and alarmed the repercussions of 'angering' Russia. No wonder, the Armenian leadership framed the decision to join the EAEU as inevitable, repeatedly citing its

positive implications for the Armenian community (Terzian, 2017, p. 191). There has been a broad consensus among the representatives of Armenia's political leadership* that despite the resentment that Russian policy may generate, Armenia should avoid 'provoking' Russia. Otherwise, the latter would severely punish Armenia's 'disobedience', by arming Armenia's fiercest enemy Azerbaijan, increasing gas prices or even cracking down on the Armenian community in Russia (Aberg and Terzian, 2018, p. 168).

In an attempt to avoid the spill over of 'colour revolutions' into Armenia, that eventually resulted in revising relations with Russia, the Russian propaganda launched a large-scale campaign against the rise of civic activism in Armenia. Clearly, the opposition to Russian coercive policies has been at the heart of major protests and demonstrations in Armenia, ranging from "Electric Yerevan" – mass protests over electricity price hikes of Russian-dominated Electric Network of Armenia in 2015, to mass demonstrations against devastatingly harmful supply of the Russian military hardware to Azerbaijan, in the wake of the 2016 April war between Azerbaijan and Armenia.

Notably, the Kremlin propaganda would feed the narrative that in line with Georgia and Ukraine, the unrests in Armenia might have been incited by the United States to pull the country out of the Russian influence. Namely, Igor Morozov, a Russian Parliament Member from the Federation Council's International Relations Committee, linked Yerevan protests to the pro-European demonstrations in Ukraine that eventually swelled into a revolution leading to the current crisis (The Guardian, 2015). "The US Embassy in Armenia is actively involved in the current events in Yerevan...Armenia is now close to a coup d'état with use of firearms" (The Guardian, 2015).

Moreover, in an attempt to obstruct EU-Armenia further rapprochement, the Russian propaganda launched a large-scale campaign against the Comprehensive and Enhanced Partnership Agreement (CEPA) inaugurated in March 2017. More specifically, Armenia's decision to develop the partnership with the EU in the form of CEPA was regarded as a 'betrayal' and outright defiance of Russian interests. Some propagandists compared Armenia's behaviour to that of a cheating wife: "Armenia is the wife, and Russia is the husband, who covers wife's all expenses... Yet the wife is not that happy and has decided to have an affair with another man" (Azatutyun, 2017b).

Essentially, such an imperial rhetoric was meant to put pressure on Armenia, not least through the large Armenian community in Russia.

Yet, the Kremlin did not overreact to mass anti-Government protests in April 2018 predating the 'Velvet Revolution'. Rather, the Russian propaganda machine would portray Armenia as a weak and powerless state, which irrespective of the power transition would stick to its allegiance to Russia (The Moscow Times 2018). These claims would frequently emphasize the factors that make Armenia

*Note: Several officials provided valuable insights, but asked not to be cited in an attributable way.

irreversibly compliant with Russia, ranging from the influential and large Armenian community to country's heavy energy, economic and political dependence on Russia. According to some reports the Minister of Foreign Affairs of Armenia Zohrab Mnatsakanian, announced during a visit to Moscow that the change of power in Armenia was “a deeply internal political process with no geopolitical aspects whatsoever” (The Moscow Times 2018).

In effect, the Kremlin conveyed its warnings to Armenia through Mikhail Leontyev, well-known Russian journalist and TV anchor, vice president and spokesman for Rosneft oil company: “Historically, politically, physically and financially Armenia is a burden for Russia,” he said. “Who needs Armenia? No one needs Armenia except us. Armenians, existing thanks to Russia's support... There would not be any Armenians and Armenia, if not for Russia” (ICDS, 2018).

Studies show that in recent years, violent racially-motivated attacks and murders, often perpetrated by ultranationalist and neo-Nazi groups have become common occurrences, especially in large cities (Shnirelman, 2014; Herrera and Butkovich Kraus, 2016). Although there have been some convictions in recent years for violent hate-related crimes, the Russian government has done little to effectively combat these dangerous trends (Neely, 2015). Armenians in Russia would not feel safe amid hatred, pervasive racism and xenophobia and thus would encourage the Armenian Government to avoid angering Russia. No wonder Pashinyan did not cross the ‘red line’ and shortly after being put at the helm of Armenia, confirmed the country's allegiance to Russia.

Further research could provide in-depth insights into how the Armenian community in Russia affects the way that Russian policies are received and implemented in post- velvet revolution Armenia.

Conclusion

The aim of the paper was twofold: (1) To trace back empirically the impact of Russian policy on Armenia (2) To explore the potential of the Armenian community in Russia to influence Armenian-Russian relations. The findings suggest that the Russian new imperial policies towards CIS countries have yielded considerable results in Armenia. To give an idea about the Russian influence over Armenia, it is worth to note that Russian state-run companies have taken over 90 percent of Armenia's energy generating capacities, coupled with gradual takeover of country's transport and communication sectors. Russia has repeatedly used Gazprom's “energy weapon” to manipulate gas prices and thus exert pressure on the Armenian Government. Notably, in response to the new Armenian Government's attempts of fighting against Gazprom's malpractices in Armenia, the latter further increased the gas price for Armenia.

Russian efforts at stepping up its influence over Armenia have significantly intensified within its strategy for the Eurasian integration. To ensure Armenia's smooth absorption into the ranks of the Eurasian Economic Union, the Kremlin has selectively targeted the Armenian NGO sector, with the goal of suppressing Western funded NGOs and thus nipping in the bud public support for European integration and opposition to the Eurasian one. Ironically, as a result of Russia's mounting pressure, Armenia's NGO legislation was subjected to controversial amendments in 2017, thus creating unprecedented opportunities for Russia to push for policy convergence. In essence, the new legislation is indicative of Russia's authoritarianism promotion and projection of its repressive policies onto CIS countries. Russia has consistently used its large Armenian community to step up its influence over Armenia and achieve its policy goals.

The fact that Russia is home to around 2.5 million Armenians, whose remittances account for over 13 percent of Armenia's GDP, make the country increasingly susceptible to the diasporic influence emanating from Russian Armenians.

Russia's large scale crackdown on the Georgian population in Russia, following Georgia's resolve to shift away from Russia and advance towards the EU and NATO, sent ripples of apprehension into Russian Armenians. The latter would strongly oppose to Armenia's non-Russian foreign policy choices to avoid angering Russia and thus provoking to mistreat their community. No wonder, the leadership of the Armenian community in Russia gave credit to Armenia's decision to join the EAEU, emphasizing its security implications for Russian Armenians.

Essentially, the 'Georgian lesson'- i.e Russian authorities' massive crackdown on Georgian community in Russia in response to Georgia's mounting rapprochement with the EU and NATO, coupled with the rise of nationalism in Russia, have reinforced Russian Armenians' fears about their safety and security. They would not feel safe amid hatred, pervasive racism and xenophobia and thus would encourage the Armenian Government to abstain from provoking Russia. No wonder Nikol Pashinyan did not cross the 'red line' and shortly after being put at the helm of Armenia, confirmed country's allegiance to Russia.

Overall, the analysis of the Russian Armenian community's impact on homeland politics is important in furthering our understanding of Armenia, where the Russian-led foreign policy choices significantly owe to the diasporic influence of Russian Armenians. Further research could provide in-depth insights into how the Armenian community in Russia affects the way that Russian policies are received and implemented in Post- Velvet Revolution Armenia.

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The importance of life cycle on the future development of tourist destination

Brankica TODOROVIC*

Abstract

The development of national economies is related to environmental pressures which have negative consequences on the environment. The phase of the life cycle indicates the need to change access to the development of the destination, thus being a useful marketing tool, as well as, an instrument in the environmental protection policy. The work analyses the theoretical phases of the life cycle of touristic destinations and presents the results of the research Case study: Nature Park Zlatibor - the most visited touristic destination. The research aims to identify the phase of the life cycle in which the destination is currently located, according to the Butler model, and to measure the achievement of ecological and economic sustainability. Additionally, it explains the opposing relations between the economic interest and preserving the protected area.

Keywords: life cycle, touristic destination, sustainable development

Introduction

Tourism is a global industry which involves hundreds of millions of people on international and domestic travels every year. However, the development of mass tourism and increasing population in cities also raise pressure on environment. The development of a touristic destination, especially in terms of its sustainability, is becoming the subject of numerous quantitative analysis. One of them is the analysis of the life cycle of the destination, according to which environmental development increases the pressures on the environment. According to the Butler's model of the life cycle of the tourist destination (1980), the destination follows more stages during its development: exploring, involvement, development, consolidation and stagnation, and rejuvenation or decline. Identifying the phase of the life cycle in which the destination is findings can help destination managers in undertaking activities related to the further development of the destination.

In the protected areas as nature parks, national parks, nature reservations and other forms, tourism and related activities should be developed in accordance with the degree of protection of the

* Brankica TODOROVIC is Professor at School of Economics, Uzice, Serbia, e-mail: bdanica@neobee.net.



area. In the areas characterised by a high diversity of plant and animal species, anticipating the possible environmental impacts is required, as well as, adequate protection measures.

1. Theoretical approaches on the life cycle analysis

The life cycle concept derives from the product life cycle which refers to the mortality of products and the need for planning replacement before the products begin to show signs of weakening or decay. The life cycle is based on the comparison with living being which life is characterized by two extreme occurrences: birth and disappearance (death).

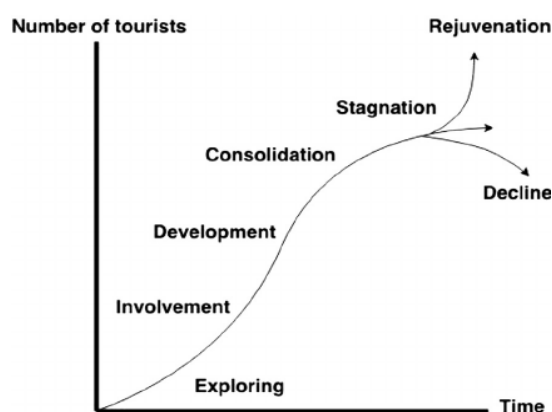
The life cycle in theory was initially considered as a life cycle of products in works of Young (1962), Kotler (1967), Topritzhofer (1972), and other authors. Kotler emphasized that the products have a limited life. According to this author understanding of business, profit is not possible in the phase of introduction, but is gradually increasing in the growing phase, then slows down to stabilize in the maturity and saturation phase and almost completely disappeared in the downturn phase (i.e. product deduction). Bearing in mind all the product life cycle features, this theoretician proposes a different marketing program at each stage, both in terms of production and finance. On the other hand, Topritzhofer expressed the relationship between total sales, time and profit, where the product life cycle can be explained by a function at any time period $t \geq 0$ (with 0 denoting the time of product launch to the market), that reflects the achieved intensity of product sales on the market, expressed in quantitative or value indicators (Topritzhofer, 1972). Theorists sought to define the phases of the product's lifecycle: the growth, the maturity, the saturation and the degradation of the product (Berg and Shuchman, 1963). According to this approach, after the maturity phase, the saturation phase is decisive for the possibility of the product to fall or degenerate. Young has introduced a more advanced product life cycle which contains the following phases: anonymity, introduction, growth, turning point, maturity and degeneration (Young, 1962). The characteristics of this model are: in the anonymity phase, the product doesn't generate any income, because it is only supported by investments; the turning point phase refers to short time interval when they are needed important strategic decisions to increase the volume of sales.

To sum up, the essence of the life cycle concept is the existence of different distinctive phases as an introduction, strong growth, maturity and, finally, decline. In addition to the analysis of individual phases of the life cycle, it's important to design marketing measures in which correspond to each of the different phases, as well as, in the case of a tourist destination, measures for increasing tourist demand and sustainability of the destination.

1.1. Phases of the life cycle of a tourist destination

In 1980, Butler, based on previous research, presented a cyclic model in the form of the S or the Butler model, according to which tourist destinations go through five different phases of development: exploring, involvement, development, consolidation, and stagnation.

Figure 1. Tourism destination life-cycle



Source: Butler (1980)

The exploring phase is characterized by a small number of tourists who stay for a longer period of time in a tourist destination. A small number of tourists causes the lack of specialized tourist facilities and services. Tourists are adventurers, all-centric and visit the destination regardless of seasons. The attitude of locals and visitors towards them is warm.

The involvement phase is characterized by growing number of tourists which also makes the tourism industry to start developing. Tourists are medium-centric and, on one hand, they are still adventurers and come by foot, car or local transport. On the other, there are also tourists who come by mini-vans provided by tour guides. There are modest tourism contributions to the economy of the tourist destination during this phase, while the attitude of locals and tourists is euphoric.

The development phase is characterized by rapid growth in the number of tourists and by their integration into a formal tourism system. An important point for this phase can be the construction of the first mega-resort whereby international companies start to control the destination. Tourists are medium-centric and psycho-centric and trips are organized through package arrangements of travel agencies. The attitude of the locals and tourists is at an early stage indifference, but in time, apathy turns into irritation. The number of tourists are increasing, as well as, their pressure on available local capacities.

The consolidation phase is characterized by a drop in tourist arrivals and other tourism-related activities. The level of tourism development starts to exceed the spatial, social and economically available capacities of the destination which is why the tourism product becomes worse. The destination is fully integrated into large, global tourism systems. Tourists are psycho-centric and they visit a destination on the basis of a package of travel agency arrangements and large hotel chains. Tourism is dominated by the economy of that area.

The stagnation phase is characterized by a surplus of accommodation capacities with high fixed costs. Accommodation type hotel needs to be converted into catering apartments or permanently populated houses for pensioners and students. The number of tourists is stable with psycho-centric oriented visitors.

The decline phase is characterized by hotels and other tourist facilities that have been abandoned or converted into flats, health centres or other facilities suitable for retirees. The new tourists can't be attracted and the excited ones are not satisfied with the touristic products. The dominance of tourism over the destination decreases because other service activities (health, state administration) are also developing.

The rejuvenation phase of the tourist destination, according to the Butler's model follows the stagnation phase. However, rejuvenation may occur after a period of decline. The rejuvenation phase is characterized by the introduction of brand-new tourism products or the radical redesign of the existing products.

Table 1. Key characteristics of the life cycle phases of the tourist destination

Phases of the life cycle	Number of visitors	Tourist industry	Psychography of tourists	Relation between locals and tourists	Attractions	Accent to the environment
Exploring	Small	No	Adventurers, Alocentric	Cordial	Natural	Very low
Involvement	Increased	Beginning development	Medium-centric	Euphoric	Cordial natural	Mostly natural low, but on the rise
Development	Rapid growth of visitors	Significant	Middle-centric and psychocentric	Apathetic, irritation	Mostly specialized tourist orientation	High
Consolidation	Reducing	Global tourism systems	Psychocentric	Irritation	Specialized and fictitious tourist orientation; generic	Very high
Stagnation	Stable	Stagnation, Converting	Psychocentric	Indifference	Specialized and fictitious tourist orientation; generic	Very high
Decline	Reduction	Development of other service activities	Dissatisfaction	Antagonism	/	/
Rejuvenation	New visitors	New tourism products	Various	Antagonism	/	/

Source: Author, based on the Butler model

Butler's model was empirically tested 50 times only in the literature published in English. As a tourist destination passes through various phases of development over time, attempts are made to generalize the phases by creating a conceptual development model (Weaver, 1988; Cooper, 1995; Cooper and Lockwood, 1995; Prosser, 1995; Harison, 1995; Wilkinskon, 1996, Kamat, 2010). The model is useful as a theoretical and practical mean for describing and predicting the evolution of a touristic destination (Prosser, 1995), while it is widely accepted that their life cycle goes through different stages (Cooper, 1995).

1.2. Sustainability of the tourism destination

The development of tourism has also led to certain ecological, cultural and social consequences. The basic forms of sustainability are (Bruntland Report, 1987):

- • Environmental sustainability, which ensures that development is compatible with the maintenance of basic ecological processes, biodiversity and biological resources (Lin and Yang, 2006; Mellino and Ulgiati, 2015),
- • Social and cultural sustainability, which ensures that development increases the control of people over their own lives, the compatibility with culture and the values of people under the influence of development, maintenance, the strengthening of community identity;
- • Economic sustainability ensures that development is economically viable and that resources are managed so that they can support future generations (Kopfmüller *et al.*, 2001; Bleicher and Gross, 2010; Bhattacharya *et al.*, 2015).

Sustainable tourism development is the subject of numerous studies (Ali *et al.*, 2008; Côté *et al.*, 2008; Fotiadis *et al.*, 2013). One of the first authors who researched the impact of tourism on the domestic population was Krippendorf (1986). The purpose and incentives to integrate environmental practices in business decisions have become one of the most debated issues among different industries and, especially, the tourism industry during the last two decades (Hoffman, 2000).

The environmental problems of urban areas are caused by city sprawl and spatial segregation (Chiu, 2012). Consequently, according to Butler's model, tourism is developing until these thresholds are exceeded (horizontal line above the development stage). However, the destination with pro-active measures can influence tourism not act negatively in the environment in the following cases:

a) the carrying capacities remain at the achieved level, but the level of tourism development is reduced through restrictions or quotas per allowed number of visitors, the introduction of restrictions on the size and number of accommodation facilities, the designation of tourism development zones, prohibition of the expansion of infrastructure and destination tax to reduce demand;

b) the load threshold is raised in accordance with the increased number of visitors and the destination is in the initiation or development phase. This scenario involves increasing supply to meet demand. In the field of environmental protection, the destination can improve sewage and wastewater treatment plants. Software technology can be used to determine optimal locations for different types of tourism and non-tourist activities, or geographic information system (GIS) to channel tourism development along the desired route, envisaging the possible impacts of different types of tourist behaviour on different physical environments (Bishop and Gimblett, 2000). Destination Management Systems (DMS) were applied to tourism destinations and involved the coordination of the activities of all actors involved in the production and delivery of the destination tourism product (Cooper *et al.*, 1998).

The Geographic Information System (GIS) was applied to Broken Arrow Canyon, a tourist site in the Arizona Desert, USA (Butler, 2010). The model assists destination managers by combining information about the physical characteristics of the area (inclination, height, objects) with the postulated behaviour of different types of tourist factors. Also, the model helps destination managers to anticipate the environmental impacts of users in different environments which allows planning of sustainable development. In New Zealand, GIS has been used in connection with the Resource Management Act in 1991 (RMA) (Watkins *et al.*, 1997). MacAdam (1999) analysed the use of GIS by consultants in tourism in the United Kingdom, GIS is useful for tourism planning and management role in terms of the production of environmental statements; the use of system analysis techniques/audit trails; wildlife data given by English nature for the management of ecology in local areas and other facts.

2. Case study: Nature Park Zlatibor - the most visited touristic destination

Zlatibor is the most visited mountain destination in the Republic of Serbia. It contributes to about 30% to total attendance, being placed in front of Kopaonik which contributes to around 16% and Tara with 12%. The mountain is located in South-Western Serbia, between 43°31' and 43°51' North Latitude and between 19°28' and 19°56' South Longitude. It belongs to the Zlatibor district and occupies 11% of the total territory of Serbia.

The organized development of tourism on Zlatibor began in 1893, when King Alexander Obrenovic stayed on this mountain and supported the request of the local population to develop an air spa and to construct the hotel "Kraljeve vode" and the villa "Čigota". Sarajevo merchant Nikola Selak built the first cottage below Tornik. The largest number of buildings was built between the two world wars in the locations of Kraljeve Vode and Palisad, next to Ribnica and Oko. The development

of tourism contributed to the crossing of the road from Užice to Čajetina, as well as, the road from Čajetina to Kokin Brod and railroads from Belgrade to Bar with Zlatibor station. In the sixties of the twentieth century, the hotel "Palisad" was built along with a Specialized hyper-steroid treatment facility. The healing factors of Zlatibor include clean and dry air (a high percentage of oxygen and ozone) which has influence on the blood cells, the treatment of acute and chronic respiratory diseases and thyroid gland. A detailed record of the number of tourists and their overnight stays on Zlatibor dates back to the fifties of the twentieth century. In 1953 were registered 1.393 tourists with 41.550 overnight stays. These were mainly long stay, due to the predominance of visitors who were treated at Zlatibor. Foreign tourists visited Zlatibor in 1956 and these were foreign transit passengers who spend their night in Zlatibor, but also businessmen who stay in Užice and the surrounding towns and spend their spare time on Zlatibor. In the period between 1955 and 1965, the number of visitors and overnight stays were variable and did not exceed 5.000 visitors and 50.000 overnight stays per year. During the period 1966-1975, the turnover of tourists and their overnight stays on Zlatibor shows a significant increase compared to the previous period and was the result of an increase in the living standard of the population.

Starting from the period 1978 to 1990, the number of tourists on Zlatibor is constantly greater than 100.000. The time after 1990 was characterized by the breakdown of the Socialist Federal Republic of Yugoslavia, the state of war, the great economic crisis and the decline in living standards which had a negative impact on the turnover of tourists. Most facilities operated with reduced capacity and due to poor occupancy at a minimum profitability level or even losses.

In the period from 1990 to 2013, the total number of tourists did not exceed 100.000 visitors. Only in 2007, the number of tourists reached the 1990 level. In 2008, a high tourist interest was achieved mainly due to the opening of the renovated ski center Tornik with a cable car. Domestic tourist demand was the prevailing segment of tourists and accounted for more than 90% in the total number of tourists during the observed period. Domestic tourists flows accounted for around 93% of arrivals and 98% of nights.

Table 2. Tourist visits in the mountain Zlatibor

Year	Arrivals		Nights	
	Domestic	Total	Domestic	Total
1955.	1.520	1.520	45.860	45.860
1965.	4.350	4.609	40.377	40.652
1975.	71.102	74.485	330.949	335.203
1978.	103.789	106.394	464.532	468.646
1985.	116.208	119.050	686.451	691.276
1995.	75.196	76.033	456.077	458.498
2005.	73.294	80.518	324.252	345.671

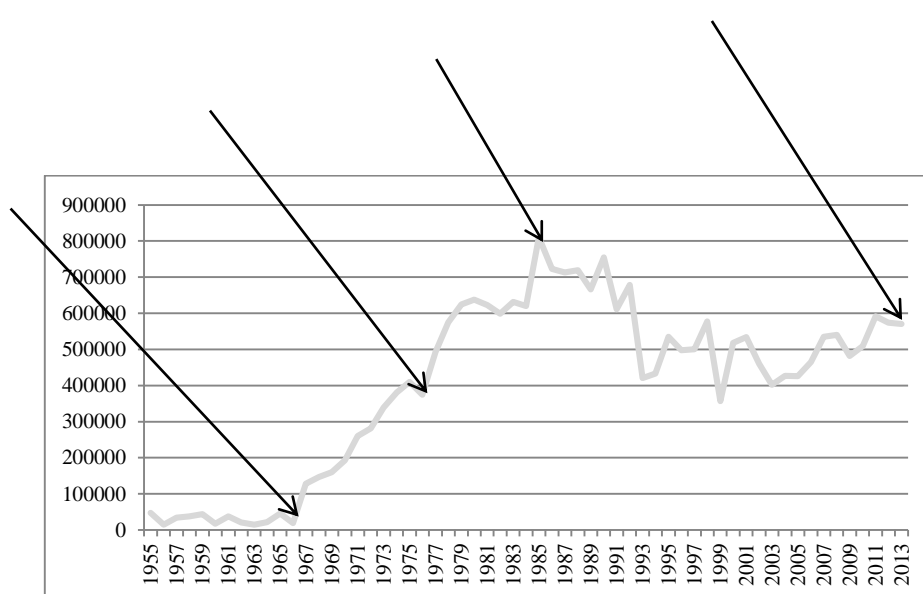
2006.	79.385	88.002	348.057	376.612
2007.	89.117	101.613	394.753	433.687
2008.	90.008	103.854	390.135	436.474
2009.	79.809	93.093	345.352	388.977
2010.	88.039	104.824	352.583	404.224
2011.	93.776	116.302	410.833	475.300
2012.	92.749	110.934	401.703	463.363
2013.	93.858	114.976	388.344	455.759

Source: Republican Bureau of Statistics

Based on the above data and the analysis of the trends in tourist visits, the period from 1955 to 1965 would correspond to the exploring phase, from 1965 to 1978 to the involvement phase and from 1978 to 1990 to the development phase; the consolidation phase started in the 1990s, the stagnation by 2010, and since 2010 was the rejuvenation due to the growing number of high-class accommodation capacities, the increase in the number of foreign tourists and the attractiveness of Ski Center and Gondola.

The average relative growth rate of tourist visits on Zlatibor during the 1955 - 2013 period was about 4.38%. Over the period from 1955 to 1966 the growth rate was negative and amounted to -7.8%; the highest positive growth rate was reached over the 1967-1985 period 21.72%. After 1985, tourist attendance declined, which translated into a negative growth rate of -1.25%. Given the data on the evolution of the tourist growth rate on Zlatibor, it can be considered that Zlatibor is currently in the stage of stagnation.

Figure 1. Movement of tourist attraction and phase of life cycle



Source: author's representation

However, there are some evolutions which undermines such a hypothesis:

- The reduction of the negative growth rate of the tourist visit in 2013 compared to 2010;
- In addition to stabilizing economic flows, the beginning of the twenty-first century also led to the construction of new and modernization of the existing accommodation capacities, primarily in private ownership, which increased tourist visibility;
- The largest number of accommodation capacities in Zlatibor are rated with 3* and 4* (78%). In the last few years were built of mini tourist complexes which function as a resort.

The tourism in Zlatibor is characterized by relatively short stays and this tendency was obvious over the 2003 - 2013 period. This may be explained by a reduced number of persons who come for treatment and the increase number of persons who come to congresses and conferences. The latter visitors are just retained in transit or just spend the weekend and thus led to a change in the structure of visitors and the motives for a stay. The problem which occurs along with the tourist development of this destination relates the possible devastation of the environment by overbuilding and overcrowding the tourist facilities in the central part of the destination.

2.1. Measures for achieve ecological and economic sustainability in the mountain Zlatibor

Bearing in mind the growing attendance of tourists after 2010 which has an impact on the realization of economic benefits, the question of sustainability is being raised. There are several different ways on which the destination may enhance sustainability:

1) Development of the tourism policy will allow for a more even spatial distribution of tourists within the area, whereby tourism movements will focus on peripheral parts. This will reduce the pressure on critical areas in which key tourist motives are located and will stimulate tourism spending in new zones and localities. In this way, new business opportunities will be opened, which will support the economic development of the peripheral parts of the destination and increases the employment of the resident population.

Further development of ecologically forms of tourism based on the principles of sustainability may also be a solution: sports-recreational, rural, excursion, health, ethno and eco-tourism.

2) Tourism management activity (destination management) through the Tourist Organization Zlatibor, as well as, the Tourist Organizations of the Region of Western Serbia and the Regional Development Agency of Uzice. About 40% of the annual budget is allocated for promoting and marketing of the destination.

3) Projects that affect the sustainable development in the destination. There is a job position for managing projects in the field of tourism in the Tourist organization Zlatibor. Projects involving local

self-government include: renovation of the ski center, construction of a wastewater treatment plant, municipal service center and a unique information system. "Tourist signalization of Zlatibor and its surroundings" is a project submitted by the Tourism Organization Zlatibor. "Zlatibor Ozone Trails" is a project implemented by the Tourist organization Zlatibor in cooperation with the International Organization for Development Assistance (IRD).

4) Use of the concept of spatial diffusion as an alternative to the development of mass tourism in the central part of Zlatibor where development on peripheral parts can contribute to more balanced development in the area. As for the area of spatial diffusion, there are several possibilities: development of tourism in peripheral parts or other village near the Zlatibor (Mačkat). Mačkat is located 16 km from the centre of Zlatibor and has always been a place where travellers travelled for good food in famous taverns. There are about 800 inhabitants in the village who are mainly engaged in agriculture and production of smoked meat products. Every January "Prosciutto" is organised.

5) The concept of sustainable agriculture would be realized with the stimulation of specialized agricultural production (production of food of defined geographical origin). Zlatibor villages are known for the production of dry-smoked products, primarily beef, pork and sheep's prosciutto. The technology of prosciutto production has remained unchanged for years.

2.2. The mountain Zlatibor as a protected area and centre of a high diversity

Nature Park "Zlatibor" (part covered by the NP "Tara") is a significant natural morphological site of about 300 km². The largest part of Zlatibor (89.75% or 2,692.49 hectares) is in the third degree of the protection regime for agriculture (primarily animal husbandry), forestry and tourism. This degree implies selective and limited use of natural resources, as well as, controlled interventions and activities in the area. Nevertelss, they need to be in line with the functions of a protected natural asset or to be related to the traditional forms of performing economic activities (agriculture and forestry) and housing, including the tourist construction of the function of recreation and sport, water management, clean energy, renewable energy and transport (Spatial Plan of Special Purpose NP Tara, Official Gazette of RS No. 100/10). Bearing in mind that the Zlatibor Nature Park, as well as, Tara protected area (National park), measuring the load capacity can be important from the aspect of future sustainable development (Todorović, 2014).

The protected area of the Nature Park "Zlatibor" is one of the high diversity centers. The characteristics of the ecosystem, its sustainability, ecosystem and genetic diversity define this part of Serbia in a region of international significance for the protection of plants. There are two Emerald areas: International Significant Plant Areas (IPA) and Areas for daily butterflies (RBA) (List of

Internationally Important Areas, 2011). Emerald is a European ecological network for the conservation of wild flora and fauna and their natural habitats in non-EU countries. It was launched in 1998 by the Council of Europe as part of the Convention on the Conservation of European Wild Fauna and Flora and Natural Habitats.

In the protected area of the mountain Zlatibor, the collection of medicinal herbs and forest fruits can only be allowed in accordance with the conditions of the Nature Protection Institute of Serbia in terms of species and quantities. In addition, the eventual construction of a new and expansion of existing tourist infrastructure and facilities should be carefully planned, primarily in terms of location and envisaged capacities. The construction of accommodation capacities should be avoided in completely new locations because it also requires the construction of a completely new transport and logistics infrastructure that would endanger biodiversity. Therefore, possible negative effects on the environment need to be avoided, while adequate protection measures are required.

During the nineteenth century most of Zlatibor was covered with forests dominated by three types of pine: white, black and mullet. Golden pine is a variant of white or black pine. This pine has a part of the yellow and yellow-green needles. At the optimal distance between the trees (10 to 15 m), the pine properly develops the crown which from a touristic aspect gives the aesthetic value to the landscape. The components of white pine have been developed on the northern slopes of Tornik to a height of about 1.300 m. The therapeutic properties of these forests are also very important. However, despite the great importance of the pine forests, they are often exploited due to their economic value. Urban planning should ensure their preservation of such values and prevent illegal construction.

Conclusions

The analysis in the work was based on the theoretical concept of the life cycle of a tourist destination that was applied to Zlatibor as the most visited tourist destination in Serbia. The phases of the life cycle of the destination have been identified with an explanation of growth or a decrease in tourist attendance at each phase. The intensive increase in tourist attendance and the construction of tourist capacities and infrastructure point to the need to preserve the natural predisposition of Zlatibor as a region of high diversity. By developing tourism on the peripheral parts and respecting the degree of protection of the area and the development of the allowed activities, the economic benefit from tourism will be achieved, as well as, a sustainable development of this destination.

Acknowledgements: The results of this research were presented at the 2nd SCIENVIR International Conference - "Scientific Convergence and Interdisciplinary in EU Environmental Research", 7th – 9th of June 2018, Iasi - Romania (<http://scienvir.uaic.ro/>)

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Is human capital a major determinant for foreign investors? Comparative study between India and Romania

Laura DIACONU (MAXIM)*, Andrei MAXIM**

Abstract

The economic literature of the twenty-first century stresses the idea according to which achieving a certain level of human capital is one of the main preconditions for a country to attract and maintain foreign investors, particularly the ones seeking to improve the efficiency of their activities. Therefore, the main aim of the paper is to analyse if human capital represents a major determinant in attracting the foreign investors in two emerging economies – Romania and India. In order to reach this objective, two qualitative methods were used: the documentary research and the in-depth interview, conducted on the managers/experts from eleven multinational companies, which are present in both countries. The results of the study underline that the level of education and the skills of the potential employees have become increasingly important drivers of foreign investments in both India and in Romania, even if the leading determinant still remains the low cost of production.

Keywords: human capital, foreign direct investment, multinational companies, India, Romania

Introduction

The boom of the foreign direct investment (FDI) inflows into the emerging economies from the end of the twentieth century suggests that the multinational companies regarded these host countries as investment locations which could bring them competitive advantages. While this aspect has largely been emphasized in the literature, various experts argue that the factors which attract the foreign investors have changed during the process of globalization. In this context, it is important to correlate the evolution of those determinants, during time, with the changes that took place in the investments' sectoral composition. Therefore, it can be noticed that during the 1970s, the foreign investments were concentrated mainly in the primary sector, the availability of natural resources in the host country being the most important determinant. During the 1980s, when the investors reoriented towards the manufacturing sector from the developing states, the size of the domestic market and the production costs became the main factors of attraction. In the end of the twentieth century and beginning of the

*Laura DIACONU (MAXIM) is Associate Professor, PhD. at Faculty of Economics and Business Administration, "Alexandru Ioan Cuza" University of Iasi, Romania, e-mail: lauradiaconu_07@yahoo.com.

**Andrei MAXIM is Associate Professor, PhD. at Faculty of Economics and Business Administration, "Alexandru Ioan Cuza" University of Iasi, Romania, e-mail: andrei.maxim@feaa.uaic.ro.

twenty-first century, a significant shift took place into the sectoral distribution of the foreign investments: a large part was redirected towards the service sector and to the technology-intensive industries. In this context, the investors looked for stable economic, financial and political countries, with efficient and transparent institutional environments and also with high levels of human capital. Therefore, as noticed by Bengoa and Sanchez-Robles (2003), the host countries need human capital, economic stability and liberalized markets in order to benefit from foreign investments, on long term.

Various studies have empirically tested the role of the human capital in attracting foreign investors in the emerging economies. Their results underline the idea according to which the availability of the skilled labour force in the host country significantly influences the geographical distribution of the foreign investments (Zhang and Markusen, 1999; Noorbakhsh *et al.*, 2001; Dutta and Osei-Yeboah, 2013). These conclusions can be explained through the fact that more and more multinational companies invest abroad, using a knowledge sourcing strategy, in order to catch up with the competitors and to obtain technical diversity (Chung and Yeaple, 2008). Therefore, achieving a certain level of education became one of the main preconditions for an emerging country to attract and maintain the foreign investors, particularly the efficiency-seeking multinational companies (Reisen and Soto, 2001). Most of the examples that support this idea come from East, South-East or South Asia: Dasgupta *et al.* Sinha (1999) argued on the case of China, India, Indonesia, Malaysia, Philippines, Thailand and Vietnam, Kumar (1990) on India and Khan (2007) on the South Asian region. However, there are also some studies conducted on the Central and Eastern European states, including Romania, which emphasize that the human capital stock heavily influences the foreign investments' flows and the associated technology transfer (Botric and Škuflic, 2016; Disdier and Meyer, 2004).

Considering all these aspects, the main objective of the paper is to analyse if the human capital represents a major determinant for the foreign investors that are attracted by Romania and India. We have chosen these two states because they have some important economic similarities which can positively influence the FDI inflows. Both of them are emerging countries that registered the highest economic growth in their region, in 2015: Romania – 3.7 per cent, the highest in the Eastern Europe, and India – 7.6 per cent, the highest in the South Asia (World Bank, 2016). Moreover, both of them started to attract FDI flows since the beginning of the 1990s, in the context of the economic reforms that opened up the markets to the foreign investors. Also, in Romania, as well as in India, the level of the wages (an important determinant for the investors) is much lower compared to other countries. Finally, in both economies, the service sector, especially the Information Technology (IT) field, became increasingly important for the foreign investors during the last 10 years.

The novelty of the study results from the fact that it aims at emphasizing the role played by human capital in attracting the foreign investors in the two emerging states.

1. Research methodology

In order to reach the established objective, several research methods were used. A first method was the *documentary research*, based on the *analysis of the secondary data* and on the *investigation of the specialized literature*, in order to have an overview regarding the evolution and the sectoral distribution of the FDI inflows in India and in Romania.

Another qualitative research method used in this paper was *the in-depth interview*, conducted on the managers/experts from eleven multinational companies, partly/entirely financed with foreign capital, present both in Romania and in India. Only one manager/expert from each company responded at our interview. The initial sample included fifteen companies but four managers/experts refused to take part in our interview. The chosen companies are both from industry (pharmaceuticals, automobile) and from service sector (IT and consultancy).

The interviews were conducted in Romania, during the period September 2017 – February 2018, but the questions were focused on the investments' environment of both analysed countries. All the interviews were performed face-to-face.

This research method was chosen because the in-depth interviews offered us the possibility to obtain 'deep' information and understandings regarding the role played by human capital in attracting the foreign investors in India and in Romania.

The main issues discussed with the respondents referred to the most important factors that determined their company to enter the two markets. The companies' representatives were asked not only to mention these determinants, but also to give grades, from 1 to 5, to all the aspects they have identified, both for Romania and India, where 5 represented 'very important reason' and 1 - 'least important reason'. The last part of the interview was focused on aspects related to the human capital stock of the two analysed countries, such as: the importance of having a university degree when hiring, the presence / absence of the practical abilities and the experience of the young graduates, the ability of innovating and the creativeness of the potential employees, as well as their risk-taking propensity. The results of the interviews are presented in the third part of the paper.

2. Literature review regarding the investments' environment from India and Romania

Since 1991, after the adoption of a liberal investment policy under the economic reforms implemented in **India**, the attracted FDI inflows have steadily increased. According to the statistics, these investments have surged from 129 million USD in 1991-1992 (Dutta and Sarma, 2008) to 40 billion USD in the financial year 2015-2016 (UNCTAD, 2016), fact that placed India in the top FDI destinations in 2015, before China and US. However, despite the general positive trend of the FDI inflows in India during the last twenty-five years, some fluctuations have also been noticed. The declines occurred in the context of the regional downturns (such as the Asian crisis, which negatively influenced the FDI inflows in India between 1998 and 2000, or the USA terrorist attacks, which had negative consequences on these investments between 2002 and 2004) or of the global crisis (between 2009 and 2010, due to the falling share of the investments made by the key source countries, such as USA, Japan, Mauritius, Germany or UK). Yet, although the global crisis has slowed the rate of the FDI growth in India in 2009, it has reinforced India's position in the global investors' perceptions. An UNCTAD report considered India the second most important FDI destination, after China, between 2010 and 2015 (UNCTAD, 2015).

During the analysed period (1991-2015), some significant shifts occurred in the sectorial distribution of the FDI. If until the beginning of the twenty-first century most of the FDI inflows went into the manufacturing sector (Satyanand and Raghavendran, 2010), during the last ten years the Indian service sector, which has a tremendous growth potential, has significantly increased its attractiveness for the foreign investors, contributing with more than 50 per cent to the GDP (Vyas, 2015). IT and telecommunications are among the fastest growing branches. Actually, the rapid development of the telecommunication sector was largely due to the multinational companies that entered this market and transferred the advanced technologies. With a growth rate of 45 per cent, the Indian telecommunications' branch has the highest growth rate in the world (Sagar and Lalitha, 2013). The IT field is also one of the booming sectors in India, with an increasing contribution to the GDP – more than 8 per cent in 2014 (India Brand Equity Foundation - IBEF, 2015) – and to the exports – around 45 per cent in the service exports of the country, in 2015 (National Democratic Alliance Government, 2016). The IT spectacular evolution in India was mainly due to the reforms implemented by the government in order to facilitate the IT industry's growth and expansion.

In the context in which the service sector requires a developed human capital and foreseeing the importance of the IT for the economic growth, the Indian government has continuously invested in building a supply base for qualified manpower and an institutional infrastructure for capability development (Arora *et al.*, 2000). Moreover, in the context of the economic reforms that took place

in the early 1990s, the Ministry of Finance indicated that India's comparative advantage was in software and not in hardware. Therefore, the demand for software's trained personnel, especially engineering graduates, has grown rapidly during the last two decades. In this context, the capacity of the higher education system in engineering has been expanded, new institutions being set up (Kumar, 2000). All these efforts to increase the stock of human capital in India were also favoured by the usage of English in schools and universities. This last aspect represented another important factor in attracting the multinational companies.

To all these advantages, it adds the fact that the South Asian region has the world's largest working-age population and a quarter of the world's middle-class consumers (World Bank, 2015). Given all these aspects, it can be argued that India, the second most populous country in the world after China, offers not only a huge consumer market to the foreign investors, but also an ample supply of qualified manpower for the service sector, at a much lower cost compared to other countries. A survey conducted by Ernst and Young revealed that India was considered the most attractive market in 2015 by a leading 32 per cent of the investigated investors; meanwhile, 60 per cent of the respondents placed the country among the top three investments' destinations (Ernst and Young, 2015).

Romania faced a long and difficult transition period after 1989, when the communist regime collapsed. Due to the slow privatization process, unstable economic environment and weak legislative system, many foreign investors avoided the country until 2000s. In the beginning of the twenty-first century, due to macroeconomic stabilization, strong GDP growth and large-scale privatizations, amplified by the perspective of the European Union (EU) adhesion, Romania benefited from record FDI inflows. The historical maximum level (13.849 billion USD) of the attracted foreign investments was reached one year after the EU adhesion, in 2008 (World Bank, 2017). However, the negative consequences of the global economic and financial crisis led to a considerable decrease of the FDI inflows in Romania, since 2009. According to the statistics, these investments started to regain a positive trend only after 2012, but their level still remains very low compared to pre-crisis period.

From the point of view of the sectoral distribution of the FDI inflows in Romania, significant changes can be noticed during the analysed period (1991-2015). If until 2006, the secondary sector, especially the manufacturing industry, received the highest share of the FDI, the situation reversed between 2007 and 2008. During these years, the share of the investments in the service sector has surpassed the share in industry (National Bank of Romania, 2008; National Bank of Romania, 2009), fact which indicates that the investors became more interested in higher added-value production and capital-intensive sectors than in exploiting the low-cost advantages. This change has also been

encouraged by the government, who implemented several measures aimed at offering fiscal facilities to the investors in the capital-intensive sectors, especially in IT.

During the recession period, when the level of the foreign investments' inflows in Romania significantly decreased, the secondary sector regained its leading position, in 2014 attracting almost half of the total FDI (National Bank of Romania, 2015). Yet, looking at the statistics, we can see that the industry's contribution to the GDP started to diminish since 2012, in favour of the IT and telecommunication field. In 2014, compared to previous year, this field registered an increase of 11 per cent and reached a share of 6 per cent of GDP, which was double than in 2011 (National Institute of Statistics of Romania, 2015). Due to this positive evolution, the IT and telecommunication field had the second highest contribution to the Romanian economic growth, in 2014. The shift of the economic structure from the low value-added sectors towards higher value added fields may suggest that, in future, the importance of the Romanian IT and telecommunications will increase for the foreign investors. This may also be encouraged by the attractive legislative and fiscal environments and by the large number of the Romanian potential employees, highly qualified in IT and telecommunications.

3. Results and discussions

The assessment of the role played by the Romanian human capital in attracting the foreign investors is based on the results of the interviews conducted on the managers/experts of eleven multinational firms, partly/entirely financed with foreign capital, which are present both in India and Romania.

One of the first aspects discussed with the experts was about the main factors that determined their company to enter the two markets. In the case of India, all the respondents mentioned the low cost of production's factors, including wages, the skilled labour force which has a very good knowledge of English, the stable economic and social policies and the support offered by the government. When mentioning this last aspect, they referred both to the fiscal facilities the investors may receive, such as loans, tax breaks, grants, subsidies or the removal of restrictions and limitation, and to the investments made by the government for the development of the infrastructure in certain areas. Other factors, mentioned only by some of the respondents, are the abundant labour force, the efficient distribution system, the large consumer market with unexplored fields and with huge growth potential and also the proximity to other large Asian/European markets.

When referring to Romania, all the interviewed companies' representatives mentioned four important factors that encouraged the investments in this country. The major determinant was

represented by the low production costs, especially labour, compared to other Eastern European states. This reason was accompanied by other aspects such as the fact that the potential employees had adequate qualifications and skills and they were able to fluently speak at least one foreign language, the large domestic market and the fiscal facilities offered by the government. Other few aspects were mentioned only by some of the managers/experts, depending on the moment they entered the Romanian market or on their previous experiences in other countries. Some of these reasons included the macroeconomic stability of the country, the reduced competition (aspect indicated only by some of the investors that entered the market in the beginning of 2000s), the geographical proximity to the Central and Eastern European states, Romania's European Union membership (aspect mentioned only by the companies that entered after Romania's European Union adhesion, in 2007) and the availability of the subcontractors and suppliers.

After indicating the investments' reasons, the companies' representatives were asked to give grades, from 1 to 5, to all the aspects they have mentioned, both for Romania and India, where 5 represented 'very important reason' and 1 - 'least important reason'. Based on the obtained results, an average score was calculated for each indicated reason. Table 1 and 2 show the hierarchy of the aspects mentioned by the companies' representatives, for India and Romania. For each country, there were taken into consideration only the aspects mentioned by all the respondents.

As we can see from Table 1, India was considered attractive by all the respondents especially because it has a production cost advantage. This result is not surprising, considering the fact that, in 2012, the average hourly wage for an adult worker in India was 0.53 USD, compared to 1.15 USD in China or 21.34 USD in USA (World Bank, 2013). However, our results suggest that these investors were also attracted by the fact that the potential employees had adequate qualifications and skills and most of them were able to fluently speak English. Actually, this aspect received the second highest average score, being very close to the first indicated reason – the low costs of production. Considering this fact, we may assume that the companies which decide to invest in India are especially attracted by the low cost of the qualified labour force.

Table 1. The importance of the investing reasons in India

Factor	Average score
Low costs of production (including wages)	4.9
Availability of the labor force with adequate qualifications and skills	4.63
Government's support:	
- Fiscal facilities	4.36
- Investments in infrastructure	4.27
Stable economic and social policies	3.81

Note: The average score was calculated as an average of the grades given by the eleven respondents for each factor.

Source: Author's results

According to the average scores indicated in Table 1, on the next positions can be found the support offered by the government to the foreign investors and also the stable economic and social policies. A survey conducted by Ernst and Young (2015) confirms the fact that India's macroeconomic and political stability as well as the implication of the government in creating a favourable business climate are among the major attractiveness' factors for the foreign investors.

Table 2 shows some similarities between Romania and India, from the point of view of the attractiveness of the investment's environment. According to the average scores, in Romania, as well as in India, on the first three positions are the low-cost of production, the availability of the labour force with adequate qualifications and skills and the fiscal facilities offered by the government. Moreover, comparing the average scores of the first two factors obtained in the two countries, we can see that they have similar values. These results suggest that, as in the case of India, the human capital was one of the most important factors which encouraged the foreign companies to invest in Romania. This aspect was doubled by the fact that the average hourly wage for an adult worker in Romania is lower than other Easter European countries. For example, in 2012, in Romania the average hourly wage was 3.89 USD, while in Hungary it was 5.28 USD (World Bank, 2013).

Table 2. The importance of the investing reasons in Romania

Factor	Average score
Low costs of production (including wages)	4.9
Availability of the labor force with adequate qualifications and skills	4.54
Fiscal facilities	3.81
Large domestic market	3.45

Note: The average score was calculated as an average of the grades given by the eleven respondents for each factor.

Source: Author's results

The following questions of the interview were particularly focused on aspects related to the human capital stock of the two analysed countries. Most of the interviewed persons considered that the increase of the tertiary education enrolment rate, which took place both in India and in Romania (World Economic Forum, 2017, pp. 203, 305), represents an advantage in attracting the foreign investors, because they will have a larger pool from where to choose the best potential employees. However, they argued that, unfortunately, in Romania most of the young graduates have only theoretical knowledge and lack the practical abilities. To this minus it adds the fact that, according to the statistics, the quality of the Romanian educational system it has slightly decreased during the last years (World Economic Forum, 2017, p. 305). Meanwhile, in India the quality has increased. This explains why the properly trained work force represents one of the most problematic factors for doing business in Romania, while in India it is the least problematic aspect, according to a survey conducted by World Economic Forum (Ernst and Young, 2015).

The multinationals' representatives argued that another determinant for entering Romanian and Indian markets was the fact that most of the young people can fluently speak at least one foreign language, especially English. Actually, this was an important aspect mainly indicated by the respondents from the service sector. However, for the companies from the industrial sector, the ability of speaking a foreign language is not such an important requirement.

An essential aspect considered by the foreign investors when hiring people is the period of previous employment. Most of the companies' representatives from the service sector mentioned that they ask for minimum two years of previous experience in the field, because they prefer persons that already have proper abilities and skills, which will need less training programs.

Regarding the ability of innovating and the creativeness of the employees, the information obtained from the respondents was quite similar for Romania and for India. The results suggest that, especially in the service sector, most of the multinationals' employees from the two countries respond very well to the companies' initiatives of generating new business solutions. Moreover, they cooperate and share the ideas with their co-workers, fact which leads to positive spill-over effects. Despite these similarities between the two countries, the respondents mentioned that, in Romania, the employees have a higher risk-taking propensity than in India. The explanation for this difference may be found in the religious and cultural background of the two states. As mentioned in different empirical studies, the impact of religion on corporate risk-taking propensity might be negative in the case of Catholic, Islamic, Buddhist and Hindu – based societies (Liu, 2010; Díez-Esteban *et al.*, 2019) and positive in the Orthodox and Protestant nations (Díez-Esteban *et al.*, 2019). Moreover, in Romania, the risk-taking propensity may be encouraged, in a wrong manner, by the 'shortcuts' offered as models by the society – those businesses based on high risks speculations, with high yields, as well as substantial incomes obtained with little effort (Popescu *et al.*, 2014).

Conclusions

The aim of the paper was to analyse if the human capital represents a major determinant for the foreign investors that are attracted by Romania and India. To achieve this objective, we have used both a *documentary research*, based on the *analysis of the secondary data* and on the *investigation of the specialized literature*, and the *in-depth interview*, conducted on managers/experts from eleven multinational companies, partly/entirely financed with foreign capital, present both in Romania and in India.

Our research has found that the level of education and the skills of the potential employees are very important aspects for attracting foreign investors both in India and in Romania, even if the

leading determinant remains the low cost of the factors of production. These results, obtained through the in-depth interviews, are in line with the shift that took place in the sectoral distribution of the foreign investments, when a large part of them redirected towards the service sector and to the technology-intensive industries. Our results are also supported by the literature, which underlines that the availability of the skilled labour force in the host country significantly influences the geographical distribution of the FDI.

In the case of India, the support offered by the government in building a supply base for qualified manpower and an institutional infrastructure for capability development had a significant influence in attracting the foreign investors. The results of our interview highlight that the increase in the tertiary education enrolment rate together with the improvements in the quality of the educational system encourage the multinational companies to invest in India. Moreover, some particular skills and abilities of the potential employees, such as a good knowledge of English or the innovation capability, were also very important factors that attracted the foreign investors in this country.

The shift that took place during the last years in the Romanian economic structure, doubled by the attractive legislative and fiscal environments, determined the foreign investors to look for higher value added fields. They have also been encouraged by the large number of the Romanian potential employees with tertiary education, fluently speaking at least one foreign language, with innovation capabilities and high risk taking propensity. However, the major complain of the foreign employers is that most of the young Romanian graduates lack the practical abilities. This aspect raises the problem of enhancing the partnerships between the universities and the private sector, in order to offer students the possibility of working in a company during their studies.

The novelty of this study results from the fact that, by using theoretical and empirical arguments, it particularizes the importance of the human capital in attracting the foreign investors on the case of India and Romania. Therefore, the findings may offer valuable information for the policy makers of the two countries in order to create a favourable environment for the FDI inflows, on long term.

Acknowledgement: This article is funded by the Ministry of Research and Innovation within Program 1 – Development of the national RD system, Subprogram 1.2 – Institutional Performance – RDI excellence funding projects, Contract no.34PFE/19.10.2018.

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