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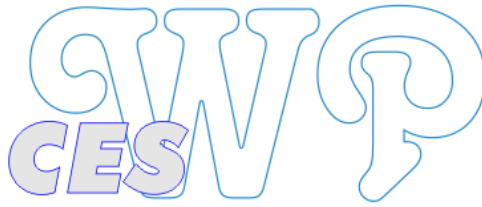
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Analysing the relationship between tourism development and sustainability by looking at the impact on the environment. A study on the European Union countries

Cristiana PĂVĂLUC (MELINTE)*, Alexandru ANICHITI**, Valentin NIȚĂ***, Gina Ionela BUTNARU****

Abstract

The relationship between environment and tourism is complex and based on interdependence. Tourism can have both a negative and a positive environmental impact. The aim of this paper is to analyse the relationship between tourism development and environmental sustainability. The results show that tourism development is one of the causes of the deterioration of the environmental resources on which we depend. As tourism becomes more important and a higher number of people are travelling over borders, tourism has a growing environmental impact. However, tourism also has the potential to create beneficial effects on the environment by contributing to environmental protection and conservation.

Keywords: tourism development, sustainability, the environment, impact

Introduction

In the last decades, we assisted to a significant tourism development, which had a global impact on several rural and urban tourist destinations, with a series of negative and positive impacts on their sustainability and on the welfare of local communities (UNWTO, 2018). The report of World Tourism Organisation (WTO) is highlighting the fact that tourism had an even higher turnover than the turnover obtained from oil export, food and automobiles (UNWTO, 2019). Tourism constitutes a strong drive of development for the society, because it offers many jobs, as well as the opportunity for countries to get economic benefits from tourist activities. Tourism development involves the creation of a sustainable environment, which is necessary for a harmonious relationship between nature and tourism (Ștefănică and Butnaru, 2015, p. 595).

* Cristiana PĂVĂLUC (MELINTE) is PhD Student at Al. I. Cuza University of Iași, e-mail: melinte.cristiana@yahoo.com.

** Alexandru ANICHITI is PhD Student at Ștefan cel Mare University of Suceava, e-mail: alexandru.anichiti@usm.ro.

*** Valentin NIȚĂ is Professor at Al. I. Cuza University of Iași, e-mail: valnit@uaic.ro.

**** Gina Ionela BUTNARU is Professor at Al. I. Cuza University of Iași, e-mail: gina.butnaru@uaic.ro.



In the following years, tourism is and will continue to be a major drive for economic growth with many sustainability challenges (UNWTO, 2012). It is often considered that international tourism has a negative environmental impact (Mowforth and Munt, 1998). Even if tourism is not a highly polluting sector, it is still an activity contributing by approximately 5% to global carbon emissions (UNWTO, 2008).

Tourism is primarily conceived as an economic activity whose sustainability depends on the decrease of associated social and environmental costs. The purpose of sustainable tourism is to balance the wellbeing of host communities, the customers' satisfaction, and the industry profits, ensuring at the same time that the recreational services on which the industry depends are maintained (Liu, 2003, pp. 459-475). Consequently, the aim is to increase the attractiveness of areas with tourist potential by integrating strategies based on long-term environmental sustainability, as well as community awareness of making a destination an ecological one (Theobald, 2005). Sustainability strategies and indicators have long been a tourism research agenda, with theoretical aspects related to sustainable development (Bramwell *et al.*, 2017, pp. 1-9).

Thus, the section of literature review examines the studies on the relationship between tourism and environment, and the empirical research provides an exhaustive analysis of tourism impact on environmental sustainability. This study is an approach which can meet and support current issues by showing how different countries managed to conserve their environment.

1. Literature review regarding the relationship between tourism and environment

Tourism is one of the most important and powerful sectors of the economy of a country, because it directly contributes to the growth of the global economy, it includes a wide range of services (UNWTO, 2019), and it involves the use of the natural capital of humanity (Collins, 1999, pp. 98-109).

The environment encloses the nature and its components (flora, fauna, hydrography, climate, relief and geology, etc.). For the humanity, the environment is *the place in which it exists and develops*, exerting various influences and activities. According to Holden (2007 p. 26), the environment is associated with the term *surroundings* (because it reflects the surroundings of a person living his/her life, and a society exists for a certain period of time in this space); it represents *systems of objectives of the nature*, consisting of flora, fauna, water, soil, etc., and it is associated with *the perceived surroundings*, ensuring the living environment for humans and the entire biodiversity, providing the feeling of belonging.

Consequently, tourism develops based on the natural environment, which is both the *raw material* and the essential element of tourist activities. Due to its complexity, the tourist activity is performed *in and through the environment* (Neacșu *et al.*, 2011, p. 334). According to Sunlu (2003, pp. 263-270), the environmental quality, either entirely natural or man-made, is very important for tourism development. Thus, a complex relationship is established between environment and tourism, involving many positive and/or negative influences of tourism on natural environment. The environmental quality means the quality of the natural characteristics of tourist destinations which may be affected by the human factor. These characteristics are reported as the ensemble of natural landscapes, clean water and air, various hydrological structures retaining their natural character, biodiversity, which may be under external influences. In essence, analysing from the perspective of tourist demand, the environmental quality is an integral part of the quality of tourist attractions (Mihalic, 2000, p. 66). In the relationship between tourism and environment, it is important to maintain the environmental quality at a high level, because changes in the structure of the environment lead directly to the decrease or increase of competitiveness of tourist destinations (Commission of the European Communities, 1994).

All environmental components can be included in the category of attractive tourist sources, which are able to increase the degree of interest for the people passionate about beauty and travel. Consequently, all environmental resources are directly affected by the development of various forms of tourism, such as: leisure tourism, spa tourism, seaside tourism, mountain tourism, etc. The capitalization of the environmental components becomes a real drive of tourist expansion. Therefore, there is a general agreement upon the that, if the degree of variation and complexity of resources is higher, the degree of tourist interest increases in the same proportion for these resources, and the activities determined by the environment acquire a much higher value and increase the attractiveness (Styles *et al.*, 2013).

Tourism has become a branch of the tertiary sector, and its activity depends on the environment. The relationship between tourism and environment is well established, and the environment has become *a constant indicator of tourism development*. The importance of the environment in relation to tourist activity derives from the fact that the environment is often considered *the key component of tourism*. Indeed, tourism through its activity capitalises on the natural capital of society, contributing to the environmental improvement of the areas with a high degree of tourist interest (Holden, 2007, p. 26).

In the analysis of tourism-environment relationship, Budowski (2009, p. 27) highlighted three relational aspects between the supporters of continuous tourism development and the supporters of environmental protection, as follows: **a)** environmental conservation and tourism activities can generate a *conflict situation* if tourism largely influences the environment and its derived components.

Excessive tourism can result in major damage to the environment, so that various prohibitions or restrictions can be imposed; **b)** the relationship between tourism and environment may manifest by *coexistence*. The coexistence between these elements is achieved according to the interest shown by each component towards the development of the other components. Usually, this aspect is rarely becoming static, because tourism development induces environmental changes. Considering the environmental impact of tourism, their relationship may manifest in a *positive aspect*, represented by a *symbiosis*, or having a *negative impact*, generating a *state of conflict* between the environment and the tourist activity; **c)** the *symbiotic* relationship between tourism and environmental conservation aims for both components to obtain a certain advantage. Tourism promotion and development has the purpose to obtain a financial benefit, and people's concern for environmental preservation and protection tends to contribute to the preservation of natural resources in their primary state and/or to the improvement of the environmental quality. Consequently, *the symbiosis between tourism and environment* may have a positive impact on the society as a whole, contributing to the improvement of the quality of life.

Analysing the relationship between these two components, tourism and environment, a relationship with a double influence and conditioning was revealed. This is explained by the fact that the development of tourist activities is closely connected to the environment (Styles *et al.*, 2013). According to Nistoreanu (2008, pp. 59-63), this double conditioning is primarily manifested by the fact that the environment provides all its resources for tourism, and tourism by its activities has positive or negative influences on the natural environment and its components. In this complex relationship between tourism and environment, tourists show a growing interest to ecotourism. Ecotourism has become a social phenomenon, with a growing popularity (Hawkins and Lamoureux, 2001). In tourism, the important component in choosing a destination is represented by the landscape and the natural environment, while in other branches of the economy this component is not of interest. Unlike other branches of the economy, tourism uses environmental resources as a whole, without subjecting them to preventive interventions of processing or dividing them into components. This aspect of preserving the environmental integrity is the supreme condition determining tourism development and evolution, as tourists are attracted to an unaltered environment (Sánchez del Río-Vázquez, 2019). The relationship between tourism and environment was also studied by Neacșu *et al.* (2011, p. 334), who consider that: *the more diverse and complex the environmental resources of a tourist destination, maintaining the quality of resources as close as possible to the primary ones, the greater the degree of interest in these tourist destinations*. Consequently, the environment becomes a very important element of tourist activity. However, at the same time, sometimes a transformation applied to the environment can have consequences on the evolution of tourist demand

by reducing the attractiveness of certain areas and depleting natural resources. Tourism contributes to the increase of attractiveness of geographical landscapes in order to stimulate the practice of various forms of tourism, contributing to the preservation and conservation of certain habitats which are vulnerable to exploitation.

In conclusion, many researchers found that the relationship between tourism and environment is one of double conditioning, and if one component allows a change, the consequences can be seen on the other. Tourism and environment must coexist in a harmonious relationship, complementing each other and obtaining benefits with a positive impact. Therefore, a prosperous, unaltered and improved environment will contribute to a more intensive practice of tourism globally. Consequently, we consider that tourism development must be performed in accordance with the norms and regulations of preserving an intact environment, and these two components must have a sustainable relationship.

2. Analysis of the environmental impact of tourism development

2.1. Impact on the environment

The study of the environmental impact of tourism development implies the existence of a two-way process according to which there is an identification and assessment of actual impacts. Thus, environmental degradation is a consequence of dangerous factors acting on the environmental resources, with a negative impact. Programme régional océanien de l'environnement (2019) shows that reducing negative impacts can anticipate certain times when risk factors act on the environment.

Tourism development is directly related to environment. Compared to other branches of industry, tourism depends on a territory and on its local, regional and national resources. It can be an economically profitable source for certain regions, but it can also generate a certain impact on tourist destinations (Ecological Tourism in Europe - ETE, 2005). In this regard, according to the research conducted by Hunter and Green (1995), it is quite difficult to objectively analyse the environmental impact of tourism development due to the very large number of factors involved, such as: **a)** the studies on environmental impact of tourism were not carried out so often as to allow a multidisciplinary analysis; **b)** the study of the consequences of tourism development on environment is in a continuous dynamic, which makes it hard to highlight the changes that take place; **c)** it is complicated to strictly determine the environmental impact of tourism, compared to other existing industries or to naturally-occurring changes; **d)** residents' or tourists' difficulty to identify the impact. Tourism is certainly part of the service sector, whose profit is obtained from the marketing of tourist

products. Consequently, the elaboration of a tourist product implies the pursuit of a diversity of interests, and this multidimensional side of tourism generates difficulties in the analysis of the impact by both public and private sectors (Carter *et al.*, 2004, pp. 48).

People's tendency to growingly invest in experiences and in the discovery of cultures distinct from their own led to an increase in the number of travels, and consequently to an increase in the importance of tourism. For tourism development, an important role is played by the quality of the environment and of its resources, on which a positive, negative, partial or total impact can be manifested. Thus, according to Matei (2015, p. 25), the causes of the environmental impact of tourism development can differ by plenty of factors such as: **a)** the form of tourism practised; **b)** the level of education of the person involved in tourism; **c)** the specifics of the tourist destination; **d)** the typology of the public programs elaborated in the tourism area; **e)** the relationship created between tourists and residents; **f)** the capacity of the environment to cope with the tourist activity.

Tourism impact can be related to two other main categories (Castellani and Sala, 2008, p. 197), namely: **a)** the impact due to the construction of accommodation structures and tourist facilities; **b)** the impact due to the presence of tourists and, in general, to the capitalisation of the tourist area. The first category describes the environmental impact of tourism development by building many accommodation units, restaurants, special recreational places and telecommunication development. This type of impact is considered to be permanent, because regardless of the tourist flow, these constructions can remain intact. The second category describes the impact due to the tourist flow according to destination. This means that the large tourist flow can become the cause of two contradictory situations: environmental pollution with various liquid or solid pollutants, requiring additional maintenance costs, and the discrepancy between residents and tourists in terms of use of resources available for consumption.

Tourism development and implicitly the impact due to tourists' presence can be measured by analysing the tourist flow considering the accommodation occupancy rate. Table 1 shows the occupancy rate in tourist accommodation structures between 2016 and 2018 for 23 EU28 member countries and 2 non-EU28 member countries (for which Eurostat data are available) compared to the EU28 average. Cyprus is the tourist destination that has the highest percentage of occupancy rate in hotels and similar accommodation units, increasing from 71.30% in 2016 to 76.40% in 2017, and recording in 2018 a slight decrease by only two percent (74.40%). This is followed by Malta, which recorded an increase from 64.60% in 2016 to 68.2% in 2018. Spain takes third place, its accommodation occupancy rate recorded a maximum in 2017 (62.62%).

Table 1 Occupancy rate in hotels and similar accommodation units (%)

Country	2016	2017	2018
UE-28	47.67	48.33	49.01
Bulgaria	41.50	42.00	42.30
Czech Republic	46.50	49.90	50.00
Denmark	48.00	48.00	48.00
Germany	43.86	44.80	45.33
Estonia	47.00	48.00	47.00
Greece	50.10	52.80	53.60
Spain	61.34	62.62	61.69
Croatia	56.50	59.50	59.50
Italy	43.70	46.10	48.30
Cyprus	71.30	76.40	74.40
Latvia	39.00	40.80	42.70
Lithuania	39.00	40.80	42.70
Luxemburg	33.19	31.28	31.46
Hungary	38.30	40.60	41.50
Malta	64.60	66.40	68.20
Netherlands	47.60	50.40	50.90
Austria	41.00	47.00	48.00
Poland	38.60	39.80	40.80
Portugal	48.52	51.36	51.36
Romania	36.03	36.50	38.02
Slovak Republic	32.91	34.18	34.21
Finland	40.25	41.50	41.14
Sweden	45.68	45.96	46.00
Liechtenstein	23.70	26.10	28.70
Macedonia	22.00	24.30	26.40

Source: Eurostat (2020)

2.1. Positive environmental impact of tourism development

Environmental quality is a concern for tourist destinations which can influence travels, determining the degree of competitiveness among destinations. Consequently, *the increase of environmental awareness and of tourist demand* led to a fierce competitive spirit for a better environmental quality in areas with natural tourism potential (Mihalic, 2000, p. 66). The positive environmental impact of tourism is achieved through a process of sustainable planning, management and promotion in order to obtain beneficial results on social and economic environment. For example, ecotourism, which is intensively spreading on a global scale, can have a positive impact (Wall, 1997, p. 20). This type of tourism is based on sustainability values regarding the environmental protection.

The 2019 Europe Sustainable Development Report (ESDR) ranked countries according to the achievement of sustainability goals. The ESDR 2019 was prepared by teams of independent experts from the Sustainable Development Solutions Network (SDSN) and the Institute for European Environmental Policy (IEEP). The report aims at 17 Sustainable Development Goals (SDGs) and

qualitative concepts, such as sustainability (clean water and sewerage, accessible green energy, sustainable cities and communities, etc). The report scores each country's performance on a particular indicator on a scale from 0 to 100, with 100 the best possible score. Table 2 shows the ranking of European countries according to the score of the Sustainable Development Goals (SDG) index.

Table 2. Sustainable Development Goals (Index 2018)

Number	Country	Score	Number	Country	Score
1	Denmark	79.80	15	Portugal	66.20
2	Sweden	79.40	16	Poland	66.10
3	Finland	79.10	17	Luxembourg	66.00
4	Austria	76.70	18	Italy	65.30
5	Germany	75.30	19	Slovak Republic	65.20
6	France	74.70	20	Latvia	65.20
7	Netherlands	71.80	21	Hungary	65.10
8	Czech Republic	71.80	22	Croatia	63.20
9	Slovenia	71.70	23	Lithuania	62.60
10	Estonia	70.40	24	Malta	62.30
11	Belgium	70.30	25	Greece	58.90
12	United Kingdom	70.20	26	Bulgaria	57.10
13	Ireland	68.20	27	Romania	55.90
14	Spain	66.80	28	Cyprus	55.00

Note: Scores range from 0 to 100, where 0 = worst and 100 = best, population-weighted average

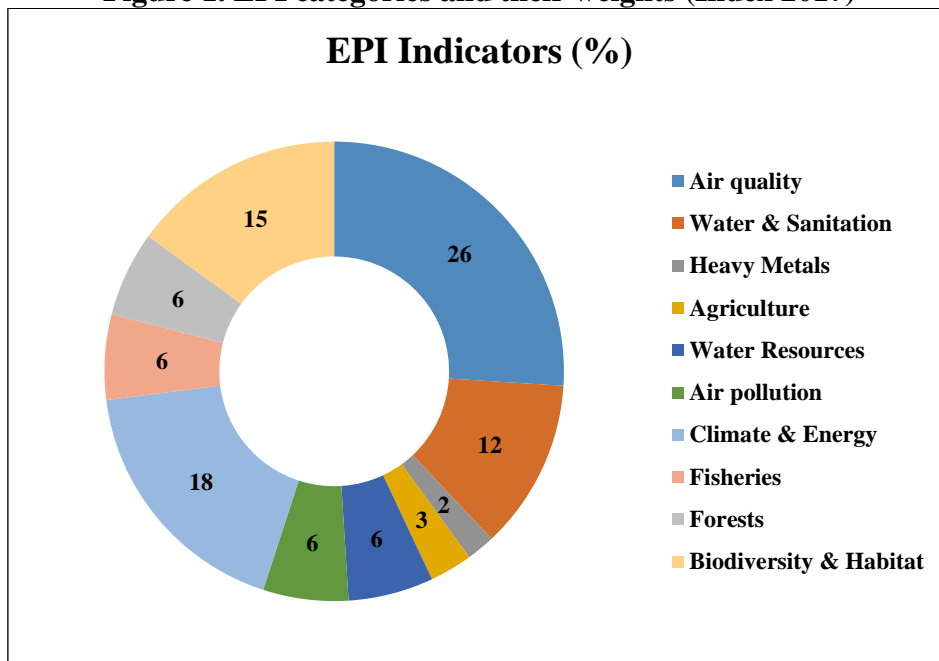
Source: SDSN and IEEP (2019)

As we can see, Northern European countries such as Denmark, Sweden and Finland are in the top of the ranking for the EU28, being the countries with the most efficient sustainable development. In addition, we can see that, in general, countries with a high-income economy and with more tourists per capita tend to rank first in terms of sustainability and sustainable environment, while developing countries tend to be at the bottom of the rankings.

This could be explained by Environmental Kuznets Curve (1955) (EKC curve), showing that in the early stages of economic development, a country experiences environmental degradation, especially by the deterioration of natural resources, also soil erosion and CO₂ emissions as a result of economic development stages. Therefore, in a developing country using its natural resources to grow as fast as possible, where environmental sustainability policies are not very strict, a large number of tourists can have a negative impact on environmental sustainability. However, after a certain level of economic growth, as its income increases, the country begins to improve its environmental protection strategies and, consequently, the level of environmental degradation decreases (Mikayilov *et al.*, 2019). This is also evident when we study other indicators. Another indicator measuring environmental sustainability is the Environmental Performance Index (EPI). The Environmental Performance Index Report (2018) presents the ranking of 180 countries according to the values

calculated for 24 performance indicators in ten categories of problems covering environmental health and ecosystem vitality. The overall EPI ranking indicates the countries with the best results of sustainable environment. The EPI (2018) represents a composite index. This index collects data on 24 individual values of environmental performance in the ten categories, such as: Air Quality, Water & Sanitation, Heavy Metals, Biodiversity & Habitat, Forests, Fisheries, Climate & Energy, Air Pollution, Water Resources, and Agriculture. Figure 1 shows the values recorded for EPI in 2018.

Figure 1. EPI categories and their weights (Index 2017)



Source: Wendling *et al.* (2018)

The scores are on a scale where 0 indicates the worst performance and 100 indicates best performance. How far a country is from reaching international sustainability targets determines its placement on this scale. The data for EPI (2018) come from international organisations, research institutions, academia, and government agencies. As we can see, in the top of the ranking for the EU28, highly developed countries are the first, while less developed countries are generally at the bottom of the ranking (table 3).

Table 3 EU Countries Ranking EPI (Index 2018)

Number	Country	Score	Number	Country	Score
1	France	83.95	15	Netherlands	75.46
2	Denmark	81.60	16	Greece	73.60
3	Malta	80.90	17	Cyprus	72.60
4	Sweden	80.51	18	Portugal	71.91
5	United Kingdom	79.89	19	Slovakia	70.60
6	Luxembourg	79.12	20	Lithuania	69.33
7	Austria	78.97	21	Bulgaria	67.85
8	Ireland	78.77	22	Czech Republic	67.68
9	Finland	78.64	23	Slovenia	67.57
10	Iceland	78.57	24	Latvia	66.12
11	Spain	78,39	25	Croatia	65.45
12	Germany	78.37	26	Hungary	65.01
13	Belgium	77.38	27	Romania	64.78
14	Italy	76.96	28	Estonia	64.31

Source: Wendling *et al.* (2018)

Another argument to continue improving the environmental conditions regarding tourism development is the increase in the global number of tourists going to natural tourist destinations (Hawkins and Lamoureux, 2001, pp. 63-73). In this context, most tourist destinations with a rich natural potential tend to develop these areas of interest through ecotourism. The intense tourism development determined the states around the world to pay more attention to the preservation and improvement of environmental quality in order to continue the evolution of the tourist activity.

Among the positive effects of tourism development, we can specify the following (Neacșu *et al.*, 2011, p. 334): **a)** growth of environmental quality; **b)** amplification of architectural and landscape units; **c)** creation of protected areas; **d)** promotion of ecotourism and sustainable tourism; **e)** progressive social and economic development. Consequently, we can see that it is very important for the states with tourism potential to contribute to the preservation and improvement of the quality of natural resources, because the environmental degradation has direct consequences on the decrease of tourist demand.

In the analysis of the environmental impact of tourism development, it is important to minimize the diversity of issues affecting the environment and to introduce investment systems for the conservation and improvement of the degraded environment (Mihalic, 2000, p. 66). In tourism, environmental degradation was found to lead to a decrease in its tourist value, having a negative impact on the commercialisation of tourism products. Therefore, all the countries in the world pay more attention to increase tourism potential, encourage sustainable tourism, and favour the creation of protected areas to reduce the destruction of natural and semi-natural resources with limited potential. Tourism contributes to the increase of the environmental attractiveness (Wall, 1997, p. 20)

and therefore it is very important to develop and elaborate various protection strategies for the sustainable preservation of natural landscapes, because the environment is an indisputable *source* for tourism (Bouthillier, 2013). If tourism development is well planned and managed, its activity can be an essential element for the conservation and preservation of the environment, and thus induces positive effects (Rabbany *et al.*, 2013).

In conclusion, we consider that tourism development also has a positive environmental impact, due to the existing concerns for preserving it unaltered, and due to reducing activities leading to its degradation. Consequently, tourism can contribute to environmental amelioration by developing more projects to improve natural resources. These tendencies are determined by tourists' motivations to visit destinations which have not yet been deteriorated and thus stimulating tourism demand and generating financial benefits for economic agents in this field of activity.

2.2. *Negative environmental impact of tourism development*

The environmental impact of tourism development can also have a negative aspect in the case of deviations of tourists' behaviour or if the tourist demand is increased in places which already have a limited resource potential. Environmental degradation has increased lately in relation to daily activities, but also to tourism development. Such a progressive tourism evolution is affecting the environment by diminishing or destroying its resources (Ștefănică and Butnaru, 2015, p. 595). The growing tourism development was found to endanger the natural potential of humanity, because it is an industry consuming natural resources in carrying out various tourist activities.

According to Holden (2007, p. 26) the environmental impact of tourism development can be analysed from the perspective of three types of fundamental activities: **a)** use of environmental resources; **b)** human behaviour; and **c)** environmental pollution. In addition, the environmental impact of tourism also derives from the increasingly intense development of many tourism businesses through the construction of large hotel chains, restaurants, recreational areas, the expansion of telecommunication networks, and increased tourist flows in areas with limited resources. Tourism development can cause damages to the environment and gradually destroy the resources on which it actually depends, and tourist awareness of its contribution to the environmental evolution is essential for developing preventive measures to reduce environmental degradation (UNWTO, 2019).

Imbalances in the relationship between tourism development and environment lead to an irremediable constraint on natural resources by water and soil pollution, deforestation of green areas, resource depletion, flora and fauna destruction, forest fires, alteration of terrestrial ecosystems, intensive urbanisation of areas affecting the abnormal evolution of flora and fauna.

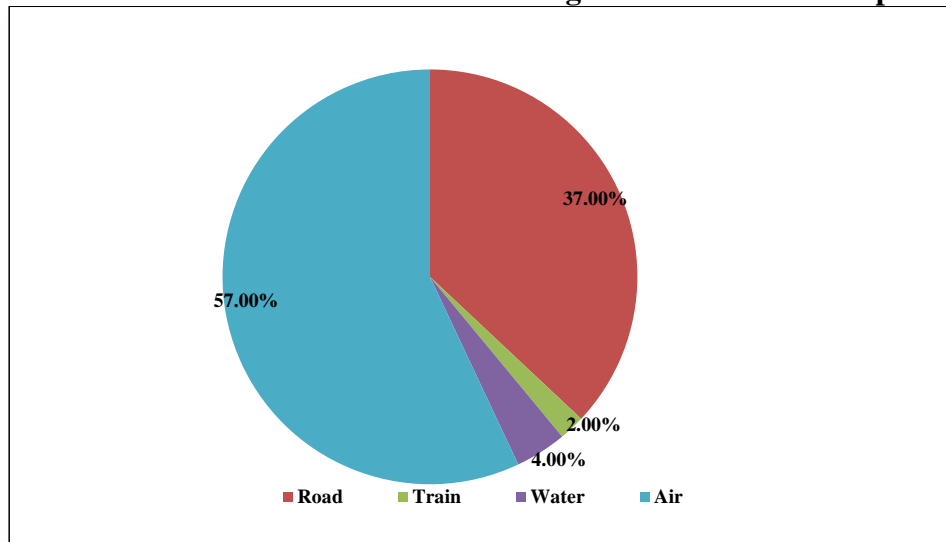
A vital element for the society as a whole and for tourism in particular is water. The intensive development of tourism has negative effects on the waters, especially on the fresh ones. Tourism uses large water resources for hotel activities (swimming pools, cooking, hygiene and maintenance), as well as for other needs. Excessive use of water can lead to water depletion, and as a result of tourist activities, to pollution. Consequently, Sunlu (2003, pp. 263-270) showed that the development of golf tourism in the vicinity of protected areas or of destinations with limited environmental resources resulted in the use of a large amount of water, and *saline intrusion* might occur under certain circumstances.

The development of cruise tourism also has a negative impact on water. Bouthillier (2013) shows that cruise ships eliminate oil and wastewater from their activities, the large ships being the main pollutants unlike smaller ones. The cruise tourism and tourist infrastructure contribute to increasing the pressure on treatment plants and lead to increased wastewater disposal flows during the peak season. However, these polluting activities may have serious consequences for both human health and biodiversity when destroying it. Wastewater can become a key issue for marine biodiversity, as well as the cause of many changes in salinity or water transparency. According to UNWTO (2019), the extensive tourism development has led to the occurrence of environmental pollution with huge amounts of plastic. To remedy this problem, global collaborations among all tourist chains are needed. Studies conducted within the organisation showed that about 8 million tons of plastic are accumulated annually in the seas and oceans, leading to the death of one hundred thousand marine mammals, fish, frogs, and other aquatic animals. One problem in this regard is that large amounts of plastic used in tourism are thrown away, without the possibility to recycle them. About 80% of all activities in the form of coastal tourism lead to plastic pollution of recreational areas, seas and oceans. According to UNWTO (2019), in the Mediterranean area, during the high season, plastic pollution affected the environment by 40%. The Mediterranean Sea is one of the regions confronted with massive water pollution, because it is one of tourists' most preferred destinations. The major problem is tourists' water consumption, which is much higher than that of the residents. For example, a person accommodated in a tourist accommodation facility (such as an international hotel) records a consumption of approximately 300 litres of water per day (Sustainable Business Associates, 2008). In turn, Gössling *et al.* (2012, pp. 1-15) studied water consumption in international tourism, showing that it was 1.3 thousand m³ in one year.

The environmental impact of tourism development can also be analysed according to airborne pathogens. The studies conducted by the International Civil Aviation Organization of Canada in 2001 showed that a transatlantic return flight eliminated in the air an amount of CO₂ which was about half of the total emissions per person in a year (Sunlu, 2003, pp. 263-270).

Air pollution affects and produces climate changes in the whole world, with an impact on tourism and on social activities for certain areas. The diagram in figure 1 shows tourists' most utilised means of transportation to various tourist destinations in 2018.

Figure 2. International tourist arrivals in 2018 according to the means of transportation (%)



Source: UNWTO (2019)

According to the same report, about 22% of greenhouse gas emissions come from tourism. This has led to the prevention of mass pollution by a productive cooperation among economic operators in the transport industry. This massive air pollution as a result of tourism development led to the spread of the concept of *car tourism* (UNWTO, 2019).

Due to the fact that tourism is a strong economic branch, at present hotels around the world have become a profitable business in the field of tourism. The hotels are consumers of natural resources, and they influence the environment by their activity with emissions of various pollutants, especially fluids used in hygiene and maintenance, laundry, household waste, burning fuels, which are disposed of in the environment, affecting the natural areas (Sánchez del Río-Vázquez *et al.*, 2019). According to UNWTO (2019), the hotels pollute the atmosphere with CO₂ by about 2% of the 5% globally as a result of maintenance activities. Another view of air pollution is presented by Huter and Green (1995), according to whom the impact of the means of transportation involved in tourism activities on air pollution can result in acid rain, with destructive effects on vegetation and forests. Uncontrolled tourist circulation caused by the large tourist flow affects the environment by degrading the soil and destroying green areas. Some tourists contemplate certain areas, going on unmarked tracks due to the lack of areas specially prepared for hiking. This factor may become a rather serious problem for the flora and fauna of a tourist destination (mostly by destroying endangered species), also for tourist attractions including authentic landscapes. If the tourist activity is not or cannot be

supervised, it may have consequences due to tourists' non-compliance with the provisions regarding practicing various forms of tourism. The high number of tourists' frequent deviation from the marked tracks to tourist objectives causes soil and vegetation degradation (Sunlu, 2003, pp. 263-270). Table 4 compares the two forms of impact when the territory is very crowded due to the high number of tourists.

Table 4. Comparative analysis of the impact on the soil and vegetation of a territory

Impact on soil	Impact on vegetation
Destruction of organic matter	Destruction or deterioration of plant stems
Destruction of soil porosity	Decrease of plant vitality
Decrease of permeability	Decrease of regeneration capacity
Appearance of erosions	Modification of the properties of the species

Source: Sunlu, 2003, pp. 263-270

Another long-term environmental problem is the negative tourism impact on biodiversity. This is a consequence of the increasing level of demands for experiences such as direct interaction with wild flora and fauna. This is why it is very important to conserve and preserve natural ecosystems attracting the tourists (United Nations Environment Program, 2011). Ecosystems are also affected by tourism constructions, by the increasing interest in cruise tourism which can destroy marine vegetation due to the destructions performed by ships (Rabbany *et al.*, 2013). Tourism development impact on biodiversity is primarily caused by the lower capacity of the natural environment to cope with environmental changes (floods, landslides, droughts, etc.), and by the reduction of food supplies, minimisation of wood reserves and medicines based on natural substances. For example, in the EU, the food industry is responsible for 14% of food waste (Aschemann-Witzel *et al.*, 2015, pp. 6457-6477). At a breakfast buffet of a four-star seaside hotel in Slovenia, the average amount of food left on a plate per person was 15.2 g (Juvan *et al.*, 2018, pp. 232-242). Moreover, the destruction of biodiversity in areas with natural tourism potential means *a loss of potential tourism* (Sunlu, 2003).

Taking into account the various issues analysed, we consider that tourism development influences the spread of waste, which affects both the aesthetic image of a tourist destination and the environmental quality. The hotels are among the main pollutants in the tourism industry, because their activities produce quite large amounts of waste, which are disposed of in the environment. However, some hotels avoid such pollutions, as they may affect their image for potential customers (Styles *et al.*, 2013).

Conclusions

The economic development is based on the environment, using its energy, information, material and natural resources. In most cases, the environment is considered a free good, which anyone can use for any type of activity. Since it has the property of being *free*, its irrational use becomes a problem, which leads to the need to prevent it. Consequently, the concept of sustainable development appeared, which, according to UNWTO, *meets the needs of current tourists and host regions, while protecting and enhancing opportunities for the future* (Cernat and Gourdon, 2007, p. 1). The application of the concept of sustainable development will lead to a resource management so that economic, social and aesthetic needs could be met while maintaining cultural identity, essential ecological processes, biological diversity, and life support systems.

Tourism on the one hand ensures the balance between economic and social progress, and, on the other hand, it is concerned with the environment and with natural resource management. In addition, tourism focuses on the full capitalisation of natural and cultural resources, on life improvement in local communities, and on meeting tourists' requirements in accordance with environmental protection and conservation for the future generations. Tourism is an economic sector consuming resources and adding pressure on the ecosystems. Tourism development often involves a strong intervention on the environment in a short time, generating an entire chain of negative effects. The analysis of the relationship between tourism and the other components of the economic system is a good premise for identifying potential imbalances in the natural environment.

Summarizing the aspects analysed above, we consider that the optimal use of environmental resources is the key element in tourism development, maintaining essential ecological processes, and contributing to the conservation of natural heritage and biodiversity. Conserving natural and cultural resources is a challenge that the tourism industry must overcome. Encouragingly, in recent years, environmental sustainability assessments have also improved due to the ratification of environmental treaties and to the improved opinions according to which tourism has a sustainable development (WEF, 2019). In some regions, such as Africa, Southeast Asia, or parts of South America, the balance between tourism and environmental sustainability must be taken into account. Moreover, in the last decades, international tourism has become a global force with economic, social and environmental significance. Therefore, in the coming decades tourism is anticipated to continue to grow constantly, and its economic contribution will become much higher.

It is very likely that a complete paradigm shift will be needed if global tourism develops in a non-sustainable way. This paradigm shift involves *the replacement of the growth ethic or of the industrial mentality* on which tourism development is based, with a *sustainability mentality* requiring

both hosts and guests to identify what is truly appreciated or desired, and to include the elements from tourism development which help preserving the intactness and authentic beauty of the places and communities they belong to.

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Change or continuity? Exploring post-revolution state - building in Ukraine and Armenia

Aram TERZIAN*

Abstract

The paper focuses on the post-Maidan and post-Velvet Revolution state-building in Ukraine and Armenia. Examining the cases of Ukraine and Armenia, the qualitative, comparative analysis presented in this paper uncovers some of the similarities and differences between the two post-Soviet revolutions in terms of their political and economic implications. The study suggests that, while the revolutions have given a strong impetus to political and economic reforms in oligarchy-driven and corruption-stricken Ukrainian and Armenian societies, the path to ultimate success involves overcoming the authoritarian legacy and developing democratic institutions. The analysis of the relationship between domestic change and foreign policy shows that in contrast to Ukraine, where the “choice for Europe” was the core rationale behind the Euromaidan, the domestic change in Armenia has not led to foreign policy shifts. Nevertheless, this study avoids reductionist explanations of external drivers of change. Rather, it treats the domestic actors as the key agents to transform the economic and political landscapes of the two post-Soviet countries.

Keywords: Ukraine, Armenia, “Velvet Revolution”, Maidan Revolution, state-building, democracy consolidation

Introduction

The 2014 Maidan Revolution in Ukraine and the 2018 “Velvet Revolution” in Armenia have considerably renewed scientific interest in post-soviet revolution studies, including in post-revolution state-building trajectories. This paper represents an attempt to uncover some of the similarities and differences between the two post-Soviet revolutions in terms of their domestic and foreign policy implications.

The case studies of Ukraine and Armenia provide insights into the challenges and opportunities of economic and political reforms in the European Union–Russia contested neighbourhood, amid the complex interplay between the Kremlin’s “authoritarian resistance” and the constrained actorness of Brussel’s state-building and conflict resolution (Ambrosio, 2016; Kuzio, 2017; Mass, 2019). The

* Aram TERZIAN, 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.

study enquires into the various dynamics behind domestic change in Eastern Partnership countries. It suggests that the core challenges facing the post-revolution state-building trajectories of Ukraine and Armenia range from lingering authoritarian legacy to the constraining conditions emanating from troubled neighbourhoods.

The question remains as to whether increasingly popular Ukrainian and Armenian political leaders Volodymyr Zelensky's and Nikol Pashinyan governments' "game changing" agendas will lead to significant economic and political transformations, thus making the two countries more immune to adverse external influences.

Overall, the paper addresses the following research question: What are the core political (including foreign policy) and economic outcomes of Ukraine's and Armenia's post-revolution state-building trajectories?

The paper uses policy analysis combined with process-tracing to examine the evolution in the post-revolution state-building in Ukraine and Armenia. The study builds its empirical argumentation by analysing a broad variety of sources, including the newspaper articles, observations from political speeches, official documents and interviews.

The paper will proceed as follows: First, the foreign policy implications of the revolutions will be briefly discussed. In the second section some features of economic reforms will be examined. The third and final sections will focus on political transformations, including the challenges of democracy consolidation. The conclusion discusses the main findings.

1. Foreign policy implications of the revolutions

While the European Union's "transformative power" has been the main rationale behind domestic change and reforms in Eastern Partnership countries, quite often the EU's development and region-building policies have been faced with Russian "authoritarian resistance" and "region-spoiling" measures (Ambrosio, 2016; Delcour and Wolczuk, 2016). In other words, while the EU has been seeking greater engagement with the region to transform it into an area of prosperity, democracy and stability, Russia would fiercely resist to the Europeanization in its "near neighborhood" (Ademmer, Delcour and Wolczuk, 2016; Terzyan, 2017).

Therefore, to account for the depth and sustainability of domestic changes, it is essential to explore their implications for post-Maidan Ukraine's and post-Velvet Revolution Armenia's relations with the EU and Russia.

Remarkably, in contrast to Ukraine, where the “choice for Europe” was the core rationale behind the Maidan Revolution, the Armenian society has not offered much resistance to country’s integration into the Russian-dominated Eurasian Economic Union (EAEU). While post-revolution Ukraine’s president Piotr Poroshenko promptly signed the Association Agreement in June 2014, his Armenian counterpart Nikol Pashinyan was quick to confirm Armenia’s further commitment to the Eurasian integration. He ruled out the possibility of foreign policy U-turns while stressing the necessity of further rapprochement with Armenia’s ‘strategic ally’ Russia (Terzyan, 2019a, p. 128).

It is noteworthy, that during Serzh Sargsyan’s presidency from 2008 to 2018, there was a tendency in Armenian political discourse to treat Russia as pivotal security partner, indispensable ally, major great power, ‘a greater involvement of which in the region will benefit Armenia’ (Terzyan, 2017, p. 187). There has been a broad consensus among the representatives of Armenian political elite that the acute threats posed to Armenia by neighbouring Azerbaijan and Turkey prompt to put heavy reliance on security alliance with Russia (Terzyan, 2017, p. 192). Meanwhile, the persistence of the long-standing troubled neighbourhood further reinforces the perception of Russia as irreplaceable security ally. That said, at this point Armenia’s centrality in the Russia-led socio-political order seems bound to continue.

By contrast, the post-revolution Ukrainian leadership has resorted to fundamental othering of Russia and treated the European Union and NATO as country’s closest allies. Notably, the former Ukrainian president Poroshenko tended to attribute Russian Empire’s and Soviet Union’s images to modern Russia and treat it as irremediably imperialistic and coercive. (Radio Liberty, 2017). Not surprisingly, Poroshenko would stress the necessity of “breaking all the fetters that connect Ukraine with Russian Empire to make independence irreversible... make Ukraine great and strong, without any prospect of returning to the Russian influence” (Poroshenko, 2018a). Poroshenko’s foreign policy concept was simple - “Away from Moscow! Europe now!” (Poroshenko, 2018b). Remarkably, the othering of Russia has been accompanied by the claims that the most effective way of standing up to the Kremlin’s aggression is the “consolidation of democratic nations,” coming down to Ukraine’s quest for EU and NATO membership (Poroshenko, 2015).

While Poroshenko’s successor Volodymyr Zelensky’s ‘game-changing’ agenda is expected to trickle down to the troubled relations with Russia, arguably any substantial new developments in the relationship will mostly depend on how ready Moscow is to deal with the new Ukrainian authorities (Dreyfus, 2019).

In contrast to Poroshenko, Pashinyan has not tended to frequently appeal to the enemy images of Azerbaijan and Turkey. Yet the perception of the neighbors as hostile, belligerent and destructive

has largely remained unchanged in Armenia's political discourse (Terzyan 2018a, p. 166). This comes as no surprise, given that the relations with neighbors have not gotten any better since the "Velvet Revolution." Moreover, Pashinyan's emphasis on Nagorno Karabakh's inclusion in the negotiations with Azerbaijan, as well as his comment that "Artsakh is Armenia, and that is it" has been met with Azerbaijani leadership's rejection and the assertion that "Nagorno-Karabakh is Azerbaijan" and that "Azerbaijan will restore its territorial integrity. Responsibility for the consequences lies with the Armenian side" (Asbarez, 2019). In effect, the prevailing hostilities do not spark optimism, as there seems to be no sign of a breakthrough in the long-standing confrontation.

Meanwhile, the lessons of failed Armenian-Turkish rapprochements suggest that there can be no significant development in Armenia-Turkish relations until at least the de-escalation of the Nagorno Karabakh conflict. This assumption is based on Azerbaijan's vast opposition to Armenian-Turkish rapprochement, which proved instrumental in thwarting it (Terzyan, 2016, p. 171). Turkey is well aware of Azerbaijan's approach to the "Armenian issue" and is highly unlikely to take any step that would upset their strategic ties.

In sum, unlike Ukraine, domestic change in Armenia has not trickled down to its foreign policy landscape, leaving the country with "the same friends and same foes."

2. Some features of economic reforms in Ukraine and Armenia

Given that both Maidan and the "Velvet Revolution" were significantly fuelled by dysfunctional economies and lack of economic opportunities, the economic reforms were put at the heart of both Poroshenko's and Pashinyan's agendas.

It is worth to note that during the first post-Maidan years, Ukraine suffered an economic slump, fraught with 12 percent decline in GDP (International Business Times, 2015) and country's external debt growth from 78.6 percent to 131.5 percent of GDP (Fedorenko, 2017). While the Ukrainian economy returned to growth in 2017, the dire economic situation led to a drop in living standards, exacerbating disparities and deepening inequality (Stratfor, 2018).

Studies show, that the core economic reforms undertaken since the 2014 Maidan Revolution include: reforming energy tariffs and social assistance, enhancing the transparency of public procurement, and simplifying business regulations, as well as setting up anti-corruption agencies and asset disclosure for public officials. Other critical reforms include restructuring the banking sector, implementing a health reform package and pension reforms (World Bank, 2019).

Clearly, Ukraine's subscription to the Association Agreement with the EU has opened up huge opportunities for country's large-scale economic reforms. It includes a comprehensive agenda for bilateral cooperation and contains binding, rules-based provisions aiming at the export of EU rules and values (Petrov and Elsuwege, 2016).

Some observers note that Ukraine performed best in implementing reforms when it faced precise demands from the EU (Fedorneko, 2017). More specifically, there have been considerable accomplishments in implementing energy-related reforms. Notably, Poroshenko's government placed a special emphasis on reforming the gas sector, as a critical step to build resilience against Russian "energy weapon" and made crucial strides in cutting subsidies on natural gas – previously misused by Ukrainian elites to ensure electoral support. The Ukrainian government's refusal to raise energy prices – which had been kept artificially low since the Soviet era – prompted the International Monetary Fund to freeze aid in April 2017 (Forbes, 2019). Finally, in October 2018 Ukraine announced that it had secured a new \$3.9 billion stand-by aid agreement with the IMF, but the government had to raise household gas prices by nearly 25% to meet the IMF's stipulations (Forbes, 2019). Even though the liberalization of energy prices and energy tariff increases would spark public discontent, the reforms were essential for fighting against systemic corruption in Russian-dominated gas sector.

The EU has been supporting Ukrainian government's efforts to reforming country's gas sector focusing specifically on reinforcing Ukrainian gas storage system and developing a business model for the new transmission system operator (European Neighbours, 2018). The bilateral energy partnership arrived at a major accomplishment in June 2019, when the Verkhovna Rada of Ukraine ratified the renewed energy Annex XXVII to the Association Agreement between Ukraine and the European Union. This envisages EU energy rules transfer to Ukraine, with the view to the latter's integration into the EU's internal energy markets (Government Portal, 2019).

Nevertheless, well-informed observers note that, despite remarkable natural gas and electricity reforms having been undertaken, Ukraine still has significant work to do, in order to secure its energy future (Bayramov and Marusyk, 2019). There has been little progress on the transformation and modernization of Ukrainian energy systems, aggravated by Ukrainian elites' selective implementation of the European rules. Not surprisingly, the EU report on the implementation of the Association Agreement, would regard the lingering oligopolistic market structure as an obstruction to the implementation of particularly electricity reforms (European Commission, 2019, p. 18). The question remains if Zelensky's government has the capacity and political will to fully implement the EU-backed energy reforms (Bayramov and Marusyk, 2019).

Remarkably, former Armenian president Serzh Sargsyan would candidly admit that one of the determining factors in Armenia's decision to join the Eurasian Economic Union instead of signing the Association Agreement with the European Union was heavy energy dependence on Russia. That said, making a "civilizational choice," would condemn Armenian consumers to pay thrice more for Russian gas (Terzyan, 2018b, p. 238).

It is worth to note that 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 (Azatutyun, 2014). This has made extremely vulnerable to Gazprom's "energy weapon" which has been used multiple times by the Kremlin to exert political influence over Armenia. Namely, Gazprom increased gas prices for Armenia by 50 percent and alluded to further hikes it in case Armenia refused to join the Russia-dominated Eurasian Economic Union in the fall of 2013 (Terzyan, 2019b, p. 127). In an attempt to hold Gazprom accountable, Pashinyan's 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. In response Gazprom determined to increase gas prices in 2019, thus showing the consequences of fighting against its monopoly (Terzyan, 2019b, p. 127). That said, by using Gazprom's energy weapon and increasing gas prices for Armenia, Russia strived to thwart the repetition of Ukrainian-style gas reforms in Armenia.

In terms of broader economic reforms, it is noteworthy that the Association Agreement (AA) with the EU has played a crucial role in fostering reforms in Ukraine. As a result of provisional application of the AA/DCFTA the EU has become Ukraine's largest trade partner by far, representing 42% of total Ukrainian external trade (European Commission, 2018, p. 12). Moreover, Ukraine has improved its business environment in recent years. According to the World Bank's Doing Business survey, Ukraine ranked 71th in 2018, which was an improvement from 76th in 2017, and 142nd in 2010 (European Commission, 2019, p. 12).

Remarkably, since 2014, the EU and the European Financial Institutions have mobilized a package of more than €15 billion in grants and loans to support the reform process, with strong conditionality on continued progress (EEAS, 2019a). The Ukrainian government has achieved considerable accomplishments in the EU approximation in the areas of trade, customs, SPS, intellectual property, and social policy (European Commission, 2018).

Besides, Ukraine has marked accomplishments in public procurement reforms, introducing a higher level of transparency on budget transactions and beneficiaries of procurements. In December

2015, the Verkhovna Rada adopted the law ‘On Public Procurement’, and a Public Procurement Reform Strategy (Roadmap) was adopted in February 2016 to harmonize legislation with the EU acquis (European Parliament, 2017, pp. 20-21). Besides, Ukraine has introduced new functionalities in the public e-procurement system "ProZorro", such as framework agreements, as well as implemented the pilot Centralised Procurement Body at national level (European Commission, 2019, p. 17).

While the AA/DCFTA applications have produced tangible results in Ukraine, one of the intriguing questions regarding the EU –Armenia Comprehensive and Enhanced Partnership Agreement (CEPA) inaugurated in 2017, is whether and to what extent its provisions would contribute to Armenia’s economic development under the conditions of limited EU conditionality.

While there has been a tendency for Pashinyan’s discourse to revolve around “economic revolution” (Civilnet, 2019), its feasibility within the Russian-dominated Eurasian Economic Union remains in question. Notably, articles 4 and of the treaty on the EAEU obligates member states to create common market of goods, labour and services and have their economic policies complied with the goals and principles of the EAEU (Treaty on the EAEU 2014, art. 4, 5). According to article 25, there is a common regime of trade of goods with third parties (Treaty on the EAEU 2014, art. 25). Thus, Armenia is considerably constrained to independently establish trade and broader economic relations with non-member countries. Moreover, the fact that Russia’s tariff levels have been imposed on EAEU member states, suggests that consumer goods, machinery and equipment imported from non-EAEU countries are bound to become more expensive and potentially unaffordable (Jam-news, 2019).

Pashinyan has placed a pronounced emphasis on foreign investments as the cornerstone of country’s economic growth that would drive productive job creation and export competitiveness. He has pledged to ensure an ‘open door’ policy towards foreign investors by providing a growth-friendly tax code based on investors wills and needs, as well as unbiased and much less restrictive regulatory environment for doing business (Armenian Weekly, 2019a). Indeed, much needs to be done to reinforce government’s promises and pledges of fundamental reforms, with trickle-down effects on country’s dysfunctional economy.

Well acknowledging the dire constraints to economic recovery, Pashinyan’s pre-revolution promises of imminent changes have been replaced with so-called “2050 economic vision” - anticipating 15-fold GDP growth by 2050 (Eurasianet, 2019). Arguably, the promises of a bright future aim at keeping the flame of post-revolution enthusiasm alight in the face of possible economic slowdown and setbacks.

Both Armenian and Ukrainian governments have prioritized tax reforms and strived to simplify tax systems. More specifically, Poroshenko proposed the "new philosophy" in taxation to simplify tax for small businesses and attract investors. The Ukrainian government's decision to shift the corporate tax burden from company profits to distributions has been welcomed by investors from Europe (Lomas, 2018).

Overall, the tax system reforms in Ukraine include: implementation of a cap and eventual removal of agricultural subsidies; implementation of a centralized database of locally set tax rates (land and property taxes); introduction of uniform reporting on profit for corporations; elimination of 18 percent tax on dividends paid by those that do not pay profit tax; elimination of 15 percent tax on interest paid on syndicated loans, etc. These reforms, among other accomplishments, have led to the elimination of an export tax on grains and oilseeds as well as that of 29 different permits and licenses mainly in agriculture, coupled with improvement of land property rights (Atlas Network, 2018).

As for similar reforms in Armenia, it is noteworthy that the Armenian Parliament approved a tax code overhaul package in June, 2019 that would introduce a flat personal income tax rate, cut corporate taxes and provide preferential tax rates for start-ups and small businesses (Armenian Weekly, 2019b). The government has viewed the amended tax code as a critical factor in boosting country's economic productivity and simplifying business operations while encouraging job creation. The initiative aims to "turn Armenia into a more competitive export-oriented economy" not least by encouraging the growth of small and medium enterprises across the country (Armenian Weekly, 2019b). It decreases the corporate tax rate from 20 percent to 18 percent, and even exempts small enterprises with an annual income under 24 million AMD (\$50,000) registered outside of Yerevan from all corporate taxes (Armenian Weekly, 2019b).

Along with the reforms, mentioned above, both Ukrainian and Armenian governments have intensified efforts at overhauling vitally important health care systems. The main health care reforms in Ukraine include the introduction of the government-guaranteed package of health care services, implementation of the e-Health system and the Affordable Medicines program (Government Portal, 2018).

As for the Armenian health care reforms, the government has proposed an ambitious program for implementing a mandatory, universal health insurance system in the country. The, program, that has run into considerable resistance so far would cost around \$525 million per year, and target the treatment of cardiovascular diseases including surgeries, as well as treatments for cancer including surgery, radiation, and chemotherapy (Mejlumyan, 2019).

Even though it is premature to jump to far reaching conclusions, both Ukrainian and Armenian governments have showed determination in reforming countries' inherently flawed health care systems.

Overall, the implementation of fundamental economic reforms has a great deal to do with the governments' ability to overcome bureaucratic resistance to change, eliminate systemic corruption and diminish major oligarchs' residual influence in both Armenia and in Ukraine. Systemic corruption, permeating every section of society and government has long condemned Ukraine and Armenia to underdevelopment, poor governance and inability to implement reforms. Thus, the success of both Volodymyr Zelensky's and Nikol Pashinyan's economic reform agendas significantly depends on the broader anti-corruption efforts.

3. Overcoming the authoritarian legacy?

One of the intriguing questions revolving around post-revolution state-building in Ukraine and Armenia is whether and to what extent the domestic changes will lead to eradicate their entrenched authoritarian and corrupt practices.

Poroshenko's government significantly reduced the corruption, particularly in the gas, banking, and government procurement sectors (New Eastern Europe, 2019). As a sign of moving the fight against corruption to the highest possible policy agenda, the Ukrainian government introduced the National Anti-Corruption Bureau and the Specialized Anti-Corruption Prosecutor's Office NABU as well as Specialized Anti-Corruption Prosecutor's Office (SAPO) established in 2015 with the participation of civil society and donor countries (OECD, 2017). Yet, the effectiveness of these institutions has been questioned by several observers, pointing to insufficiency of anti-corruption measures amidst unrelenting efforts by power groups to retain their outsized influence over the law enforcement and justice (Gressel, 2019). As a result, Poroshenko's steady decline as a political powerhouse significantly owed to his failure to defeat systemic corruption.

Meanwhile, Volodymyr Zelensky's promises of defeating rampant corruption resonated with the Ukrainian voters, who placed a great deal of faith in his 'game-changing' agenda. The Rada's first day was marked with the adoption of important pieces of anti-corruption legislation, including the removal immunity from prosecution for MPs and the proposal to provide the National Anti-Corruption Bureau of Ukraine (NABU) with the right to undertake autonomous surveillance (Emerson and Remzov, 2019). Moreover, Zelensky's anti-corruption efforts resulted in investigations and subsequent arrests of some of President Poroshenko's associates, including Oleg Hladkovsky, a top Defense official; a People's Front party MP and the former head of the Rada's defence committee Serhii Pashinsky; ex-deputy minister for the occupied territories Yuri Hrymchak; and Poroshenko Bloc MP Yaroslav Dubnevych, etc. Furthermore, Zelensky put the High Anti-Corruption Court into

action, that passed a bill reinstating criminal liability for the illicit enrichment of officials (Minakov and Rojansky, 2019).

Similarly, the post-revolution government in Armenia criminalized illicit enrichment and intensified its anti-corruption campaigns (Emerging Europe, 2020). The government pushed for a series of high-profile trials against former senior officials, most notably ex-president Robert Kocharyan, former high-ranking officials Manvel Grigoryan, Aram Harutyunyan, Seyran Ohanyan and others. This extended to former defence minister and outstanding former ruling Republican Party member, Vigen Sargsyan, who was charged with “abuse of power,” as well as to former Chief of Police Alik Sargsyan - charged with covering up illegal post-election crackdown on opposition protesters in Yerevan in 2008 and with destroying evidence of the “overthrow of the constitutional order” led by then President Kocharyan (Giragosian, 2019, p. 5). However, these arrests and investigations have not yet led to court rulings. Essentially, both Pashinyan’s and Zelensky’s fight against corruption has so far focused on punishing former governments’ members or associates. The question remains as to if the anti-corruption measures will move beyond selective prosecution of former officials to the unequivocal application of “zero tolerance for corruption” principle.

This in turn comes down to the furtherance of democratic reforms, leading to the advancement of good governance practices and eradication of the systemic corruption in both countries. Both Zelensky and Pashinyan have placed a special emphasis on defeating judicial corruption. While Poroshenko would previously hail the judicial reform as “the mother of all reforms” there was not much to reinforce government’s pledges of fundamental reforms (Jarabik and De Waal, 2018).

In an effort to rectify this, in autumn 2019, President Zelensky embarked on judicial reforms. More specifically, he dismissed the High Qualification Council of Judges (the body responsible for attestation and selection of judges), announced plans to reload the Higher Council of Judges (the highest self-governance body of judges) and halved the number of Supreme Court judges (Sologoup, 2020). Remarkably, while the Venice Commission, an advisory body of the Council of Europe, praised Zelensky’s government’s judicial reform, it expressed concern over certain aspects of the reform, pertaining to “important issues of the rule of law” in Ukraine (Euronews, 2020). The Commission criticized the situation, where the politicians are seen to get too much power to determine whether the sitting judges remain in their position or not (Euronews, 2020). Similarly, the judicial corruption is one of the most harrowing challenges facing Pashinyan’s government. Following the controversial release of second President Robert Kocharyan in May 2019, Pashinyan contended that the judiciary is a remnant of the former corrupt system which would cook up conspiracies against the Armenian people (Emerging Europe, 2020). As a result, he called for a mandatory “vetting” of all judges to the all the

courts in the country because of their ties to the previous regime (Asbarez, 2019b). The tension between Pashinyan's government and the "remnants" of the former regime reached a point, where the Armenian parliament adopted a bill on holding a referendum on suspending the powers of a majority members of the Constitutional Court. Pashinyan would largely treat the current Constitutional Court as an impediment to completing the revolution in Armenia. More specifically, it was regarded as an instrument that prevented the people from exercising their right to form a government in the country in the 1996, 1998, 2003, 2008, 2013 presidential elections (Pashinyan, 2020). Notably, Parliamentary Assembly of the Council of Europe (PACE) co-rapporteurs for the monitoring of Armenia, called on Armenian political players to refrain from actions and statements that could be perceived as exerting pressure on the judiciary (Asbarez, 2020). Essentially, Pashinyan threw his weight behind changing the Constitutional Court, contending that the latter represents the corrupt regime of Serzh Sargsyan, rather than the people of Armenia. Furthermore, he regarded the opponents of the referendum as "anti-state" forces (Eurasianet, 2020). Overall, the judicial reform remains as big challenge in both countries, as its success is critical to breaking with the authoritarian legacies.

It is noteworthy that Ukraine is the 126 least corrupt nation out of 180 countries, according to the 2019 Corruption Perceptions Index reported by Transparency International (Trading Economics, 2020). Meanwhile, Armenia has considerably improved its position in an annual survey of corruption perceptions around the world conducted by Transparency International. It ranked 77th out of 180 countries and territories evaluated in the Berlin-based watchdog's 2019 Corruption Perceptions Index (Azatutyun, 2020).

Essentially, political elite's robust commitment to eradicating systemic corruption is indispensable. Although political will may not be sufficient, it is a necessary condition to combat corruption. The case of Romania demonstrates that the political will to defeat corruption may well make up the absence of a tradition of the rule of law and democracy. More specifically, the European Union pressure, along with the electoral pressure and the political will of the domestic political elite combined to ensure the establishment of the rule of law and defeating corruption in the Romanian judiciary between 1997 and 2006 (Ritsei, 2010).

Clearly, a major impediment to democratic state building, including fight against corruption in Armenia and Ukraine lies with prevailing "post-Soviet informality" (Aliyev, 2015). The use of informal networks and connections in exchanges of favours, gift-giving and other types of informal activities have been deeply ingrained in both Ukrainian and Armenian societies. Hence, the state apparatus, as well as education, healthcare, judiciary and law enforcement have long been dominated by informality. As a matter of fact, countries with long histories of informal illiberal practices and

corruption often face tremendous challenges in eradicating these blights. The culture of informality and corruption permeating every section of society takes a long time to fade away. Studies show that Ukrainian citizens tend to “condemn” high-level corruption” yet “regard petty corruption as a justifiable evil” (Lough and Dubrovskiy, 2018, p. 2). Therefore, both governments, as well as civil society organizations have a critical role in eradicating the informality and culture of corruption in both societies, not least through promoting liberal values and good governance practices.

Admittedly, one of the major challenges posed to democratic reforms in Ukraine and Armenia is the residual influence of major oligarchs. By taking over the key economic assets and media in these countries, oligarchs have been equipped with tools for exerting considerable influence over the incumbents. Studies show that during Poroshenko’s presidency the sharing out of monopolies among leading business groups would continue, along with slow progress on de-monopolization (Lough and Dubrovskiy, 2018, p. 22).

Not surprisingly the EU has been giving great weight to defeating oligarchy, stressing that there could be no meaningful progress on the implementation of the Association Agreement if the oligarchy keeps exerting tremendous influence over the Ukrainian economy, politics and media (European Parliament, 2018). While Zelensky’s government’s reform agenda provides grounds for optimism, the process of deoligarchisation considerably depends on broader economic, political and legal reforms, that would shrink the “oligarchic spaces.”

As for Armenia, as a result of the “Velvet Revolution,” oligarchs are no longer overrepresented in Armenian government. Yet, it is premature to contend that there are no oligarchs in Armenia, given that their huge influence over the Armenian economy may well translate into political power. Both Ukrainian and Armenian governments well acknowledge the depth of oligarchic influence in the two countries and would avoid resorting to shock therapy. Thus, a gradualist approach to diminishing the oligarchic influence seems more reasonable.

In terms of broader rule of law reforms, there is much room for significant improvements in both Ukraine’s and Armenia’s law enforcement authorities. The Maidan Revolution has given a strong impetus to overcoming the post-communist policing legacy, plagued by corruption and authoritarian malpractices, and thus opened a space for democratic policing (Friesendorf, 2019).

Kirsten Madison, Assistant Secretary of State for International Narcotics and Law Enforcement Affairs notes that the police reform has become the most significant in the transformation of the law enforcement agencies in Ukraine (Unian, 2018). The fact that Ukrainian patrol police, the KORD special forces unit, and the State Border Guard Service are implementing advanced Western standards

prompted Madison to posit that police reform is one of the most striking elements of what modern Ukraine might look like (Unian, 2018).

A well-informed observer argues that in the case of Ukraine the keys to a successful and sustainable police reform in certain parts of the police have been: first, insulation of new police institutions from politicization and patrimonial staffing to ensure their independence and impartiality; and second, institutional design which mandates transparency mechanisms, accountability procedures and civilian oversight in the staffing, promotion and activity reporting of police (Pehlman, 2019).

Even though there have not been considerable strides in reshaping and restructuring the policing in Armenia, Pashinyan's emphasis on fundamental law enforcement reforms provides grounds for optimism. Admittedly, the promotion of reform-minded law enforcement officials along with consistent fight against systemic corruption is instrumental in achieving a breakthrough in law enforcement reforms.

An integral part of law enforcement reforms is reforming the KGB successors - the Security Service of Ukraine (SBU) and National Security Service (NSS) of Armenia that appear to have retained considerable law enforcement functions and thus remain subject to undue politicization. Evidently, both SBU and NSS are more than intelligence agencies, and it has not been uncommon for them to be misused to coerce opposition in Ukraine and Armenia (Gressel, 2019, pp. 12-13).

Overall, along with above-mentioned economic reforms, the fundamental transformations of law enforcement agencies and former KGB services are indispensable to post-revolution democratic state-building in Ukraine and Armenia.

4. Expanding the democratic space: Towards a vibrant civil society

It is hard to underestimate the importance of the institutional foundations of democracy consolidation, with effective, well-established democratic institutions and robust civil society organizations.

Essentially, the nation - building in both countries has not been sufficiently institutionalized. Rather, it depends on personal decisions and performance of a few individuals. Both Nikol Pashinyan and Volodymyr Zelensky capitalized on their huge popularity and through snap elections significantly consolidated their power. They both are largely treated as "saviours" capable of leading to major economic and political breakthroughs. Meanwhile, the accumulation of so much power in the hands of charismatic leaders is fraught with power abuses in the absence of powerful political opposition.

There has been a strong tendency both in Pashinyan's and Zelensky's discourses to style their regimes as "people's government" or "people's servant" that introduce a new form hyper-democratic interaction between state and society. More specifically, Pashinyan's discourse regarding the "people's government" has reached a point where there seems to be a blurred line between state and society. Given huge public support for Pashinyan's government manifested in its landslide parliamentary victory in December 2018, Pashinyan and his proxies even contend that any step against their government is a step against the Armenian people, as they represent "people's government" (Factor, 2018). Pashinyan suggests that he embodies the will of the people and that Parliament's legitimacy is based on that will: "In Armenia, there is no coalition government. In Armenia, there is no parliamentary majority. In Armenia, the ultimate power directly belongs to the people and the people carry out direct rule. This is the key meaning of the revolution that took place in Armenia" (Armenian Weekly, 2018).

Similarly, the Ukrainian President tends to distance himself from his predecessors and other presidents due to his resolve to bring people to power "who will serve the people" (Zelensky, 2019).

Inna Sovsun, a member of the Ukrainian opposition party Holos (Voice) notes that the centralization of power remains a significant problem as it is unclear who the next president will be (Euronews, 2020). Meanwhile, the success of democratic reforms in both countries significantly depends on their shift from charismatic leaderships to functional democratic institutions, that translate leaders' visions into policies sustained by appropriate structures, rules, and procedures. Therefore, the depth and sustainability of reforms considerably depends on the Ukrainian and Armenian governments' will and ability to reinforce the institutional foundations of state- building.

To make all these happen, it is essential for Ukrainian and Armenian civil societies to boost their actorness and become agents of democracy. Way (2014) notes that the demonstrations leading the revolution "showed the Orange Revolution was not a one-time fairy tale, but a feature of Ukraine. Civil society exists" (Way, 2014, p. 41). Nevertheless, he suggests that it would be misleading to treat the successful actions by protesters or even civil society representatives per se as a shift in a robust or "emerging" civil society (Way, 2014, p. 41). Thus, the question remains as to if protests are organized by well-established and institutionalized organizations, or do groups emerge spontaneously out of the protests themselves?

In this regard some observers note that civil society organizations and activists need to move beyond the victory in the street and pursue victory in town halls and elections, with the growing realization that "the Maidan" now needs to be in people's minds and behavior rather than in downtown Kyiv (Smaglyi, 2017; Diuk, 2014, p. 89).

Indeed, it is impossible to underestimate the contribution of the civil society groups to post-Maidan reform process. The largest and most influential reform network – the Reanimation Package of Reforms (RPR) has brought together NGOs, reform groups and experts, who form, develop and promote a reform agenda, targeting anti-corruption, judiciary and economic transformations (Smagliy, 2017). Not surprisingly, the the EU reports would emphasize Ukrainian civil society’s positive role in in the promotion and monitoring of reforms, focusing specifically on the areas of human rights, anti-corruption, healthcare, energy, decentralization (European Commission, 2019, pp. 5-6).

While civil society coalitions in Ukraine have been one of the driving forces behind country’s economic and political transformation, the absence of an umbrella organization or clearly reform-oriented movement in Armenia, seems to leave the fate of the societal coalition that brought Nikol Pashinyan to power uncertain.

Studies show that despite the growing number of civil society organizations (there are more than 4,000 registered civil society organizations, mainly non-governmental organizations (NGO), absolute majority of them are inactive with little to no potential to represent certain interest groups (Gevorgyan, 2017). Paturyan and Bagiyani (2017) note that the low trust and negative public perceptions towards NGOs in Armenia significantly owe to lack of communication with public (Paturyan and Bagiyani, 2017). As a result, NGOs would be largely perceived as project implementers or office workers that are detached from local constituencies and simply strive to attract donor funding (Gevorgyan, 2017).

While the mounting activism of civil society organizations sparks optimism, further development of their institutional capacities and networks is essential for boosting their actorness in both countries. That said, civil society organizations need to overcome their own limitations to influence policy making and push the reform agendas of the Armenian and Ukrainian governments forward.

Conclusion

This paper contributes to existing literature on the post-revolution state- building in post-soviet societies by examining the cases of Ukraine and Armenia. Based on the previous discussion, there are a few main concluding observations to make regarding post-revolution trajectories of Ukraine and Armenia.

First, and in terms of foreign policy implications of the revolutions, in contrast to Ukraine, where the “choice for Europe” was the core rationale behind the revolution, the domestic change in Armenia has not led to foreign policy shifts, leaving the country’s centrality in the Russia-led socio-political order intact. The persistence of troubled relations with neighbouring Azerbaijan and Turkey further reinforces Russia’s treatment as irreplaceable security ally. Meanwhile, the post-revolution state -building in Ukraine has been accompanied by substantial othering of Russia with a growing emphasis on country’s profound approximation towards Europe.

Second, in terms of economic reforms, it is noteworthy that both Ukrainian and Armenian governments’ have made considerable strides in improving business environments and implementing tax reforms. The Ukrainian government has achieved significant accomplishments in terms of building country’s energy resilience against Russia. Even though the Ukrainian government still needs to complete a great deal of reforms to get its gas and electricity systems transformed and modernized, the dynamics of country’s energy sector Europeanization provide grounds for optimism. Meanwhile, Armenia remains immensely vulnerable to the Russian “energy weapon.” Gazprom’s dominance over Armenia’s energy sector, along with country’s full-scale integration into Eurasian energy market devastatingly impair new government’s ability to implement game-changing reforms. Overall, the implementation of fundamental economic reforms has a great deal to do with the governments’ ability to overcome bureaucratic resistance to change, eliminate systemic corruption and diminish major oligarchs’ considerable influence in both Ukraine and Armenia.

The third observation relates to broader political reforms both in Ukraine and Armenia. One of the top priorities for both countries involves reinforcing the institutional foundations of state-building with consistent development of democratic institutions. Both Nikol Pashinyan and Volodymyr Zelensky are largely treated as “saviours” capable of producing major economic and political breakthroughs. Meanwhile, the sustainability of democratic reforms in both countries significantly depends on their shift from charismatic leaderships to functional democratic institutions, that translate leaders’ visions into policies sustained by appropriate structures, rules, and procedures. Clearly, it is impossible to downgrade the importance of a vibrant civil society, as a powerful agent of democracy. While the mounting activism of civil society organizations sparks optimism, further development of their institutional capacities and networks is essential for boosting their actorness in both countries. That said, civil society organizations need to overcome their own limitations to influence policy making and push the reform agendas of the Armenian and Ukrainian governments forward.

Last but not least, there is much room for judicial and law enforcement reforms in both countries. While the Ukrainian leadership has taken considerable strides in overcoming the post-

communist policing legacy, and thus opened a space for democratic policing, the successful transformation of the Security Service of Ukraine (the KGB successor) remains a critical part of broader law enforcement reforms. Focusing chiefly on judicial reforms, the Armenian government has so far paid less attention to reshaping and restructuring the policing in Armenia. Clearly, the promotion of reform-minded law enforcement officials along with consistent fight against systemic corruption is instrumental in achieving a breakthrough in law enforcement reforms.

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The analysis of the Crimean Tatars since 2014 Crimean hybrid conflict

Sezai ÖZÇELİK*

Abstract

The occupation of Crimea determined the Crimean Tatars to react with obvious and clear-cut response: condemning the Russian aggression against the Ukrainian territorial integrity. This paper aims to analyze the post-2014 Crimean hybrid conflict situation of the Crimean Tatars, by investigating how the Crimean Tatars conditions have evolved under the Russian invasion forces for the last five years. In order to understand the post-2014 situation, the paper also focuses and examines the forced deportation (Sürgün or the Soviet Genocide), as well as Turkey's foreign policy reactions toward this regional conflict. Civil disobedience and nonviolent strategy of the Crimean Tatars have been used to pressure the Russian public opinion and political elites regarding the unlawful and unfair act toward the Ukrainian and Crimean sovereignty. In addition, the Crimean Tatars have voiced their concerns and demands in the international political arenas. Overall, the paper focuses on the repercussions of the Crimean crisis from political, psycho-social and international perspectives.

Keywords: Crimea, Crimean Occupation, Crimean Tatars, Turkey, Soviet Genocide (Sürgün)

Introduction

There are chilling and strange coincidences between Russian-involved conflicts and Olympics. Specifically, when an Olympics event was held in the world, Russia was being labelled as the usual suspect on a certain regional conflict. For instance, when the extravagant opening ceremony of the 29th Summer Olympic Games on August 8, 2008 started with the burning of the Olympic Torch in Beijing, the Georgian-Russian conflict has also started. Putin, who was the Prime Minister of Russia at that time, went to Beijing to attend the Olympics opening ceremony. At the same day, Medvedev, the President of Russia, was on vacation. Russia has previously behaved in an aggressive manner towards its neighbours in the region. In order to define this new Russia image, some researchers have used the term “neighborhood bully” in post-Soviet space (Hedlund, 2011, 3; Krickovic and Bratersky, 2016; Slobodchikoff, 2014, xii, 117, 154; Olcott, 2010, 7) for Russia as benevolent hegemon or

* Sezai Özçelik is Professor at Çankırı Karatekin University, Turkey, e-mail: sezaiozcelik@gmail.com, sozcelik@karatekin.edu.tr

regional security provider who tormented the neighbourhood kids (Nagorno-Karabakhs, Georgia, Transnistria, etc.).

The time conflict was initiated on the early hours of August 8th, when all Georgian troops began shelling and bombarding the city of Tskhinvali, the capital of South Ossetia (Svyatets, 2016). As a result, the 2008 Six-Day War between Georgia and Russia has started. After Russia's massive military reaction, the six-day war came to an end when Russia decided to recognize the independence of two separatist regions of Georgia, namely South Ossetia and Abkhazia. The second incident with similar patterns happened during 2014 Winter Olympic Games in Sochi; when at the closing ceremony of the Olympics Games in February 2014, came an order from Moscow to occupy Crimea, the territory of Ukraine along with the city of Sevastopol. However, unlike the 2008 Georgian-Russian War, the Crimean occupation was different as it was almost achieved without any armed conflict, by introducing the so-called "hybrid war strategy" (Ozcelik, 2016).

On 26th of February 2014, Putin has ordered the unlawful, illegal and unilateral invasion of *Yeşil Ada*, the narrative description of Crimean Peninsula which literally means the Green Peninsula. The Crimean Tatars were the one and only force to confront and fight back on the Black Wednesday. Moreover, it was for the first time in international politics of the contemporary history since Hitler's occupation of *Czechoslovakia's Sudetenland region*, when an aggressor state (Russia) invaded another sovereign state territory (Crimea, Ukraine). On that day, the leader of the Russian Unity Party, Sergey Aksanyov, and his followers congregated in front of the Crimean Parliament building, chanting slogans: "Russia!" "Russia!" supporting President Vladimir Putin and waiving and brandishing his posters and the Russian flags (Prentice, 2014). The Russian demonstrators and pro-Russian parliamentarians were confronted by approximately 12,000 Crimean Tatars who particularly aimed to block the Crimean Parliament President Vladimir Konstantinov and other Russian backed parliamentarians that intended to burst in the building and voted to unify Crimea to Russia. While all Russians in front of the Crimean Parliament chanted "Glory to Russia", the Crimean Tatars have been calling their crowd to "Calm Down" (*Cemaat Tokta*) (NTV, 2014). On that day, the Crimean Tatars were able to stop the Russian protesters to enter the Parliament. However, mysterious 50 unmarked and masked Russian soldiers so-called "Little Green Men" burst into the Crimean Parliament building in the following night. In the next morning, with the support of 100 police, many Russia supporters gathered in front of the Crimean Parliament building. As a result, the Crimean Tatars was lost their homeland "overnight from relatively democratic pro-Western state of Ukraine to Putin's authoritarian state of Russia" (Williams, 2001).

Following to the Russian armed forces occupation of Crimea, the next move was the annexation of Crimea that was achieved by the referendum that was declared to be held on March 17, 2014. Officially, the results of the referendum reported as follows: The attendance of the polling was 85 % (Walter, 2014). Astonishingly, out of 97 % of the Crimean population voted in favor of Crimean accession to Russia (Huffingtonpost, 2014). The Supreme Council of Crimea announced that Crimea was obtained its independence from Ukraine as a result of the referendum. The Russian President Putin signed “Executive Order” at the same day that recognized Crimea as a territory of the Russian Federation. The following day in the Kremlin, a treaty was signed that finalized the integration of Crimea into the Russian territory (Meyers and Baker, 2014). Instead of obtaining independent statehood of Crimea, all these undemocratic process only integrated Crimea into Russia.

The main objective of the paper is to make narrative analysis the post-2014 situation of the Crimean Tatars since the 2014 Crimean Hybrid Conflict. It hopes to present the Crimean Tatars narratives in comparison to the Russian narratives of the cleansing Crimea from the so-called terrorists and hard-liners. The main Russian narratives can be seen from the main Russian media and government institutions. The Crimean Tatar narratives data have been collected from the news resources. The research question is how the Crimean Tatars’ chosen trauma (Sürgün or the Soviet Genocide) has given shape to their nonviolent strategy of the Russian occupation of Crimea after 2014. The narratives of the forced deportation (Sürgün) of the Crimean Tatars have been told and re-told during the exile years and behind. The experience of deportation has produced the psychological DNAs for the Crimean Tatars that have transferred from generations to generations with body of memories and recollections. The power of memory and memories of power of the forced deportation (Sürgün or Soviet Genocide) has been deep-rooted and protracted nature of the Crimean Tatar National Movement (CTNM). The memory, history and sentiment has generated a reciprocal process among charismatic leader (Mustafa Cemiloglu), political platform and the diasporas. In the Crimean Hybrid Conflict, it is possible to distinguish three different narratives by analysing content analysis of “speech acts” of elites and policy documents. It is possible to differ three narratives. First, the Russian-supported Crimean regional government has used “neo-Stalinist frame” to de-humanize the Crimean Tatars and normalize the violence against minorities in Crimea. Second, the Crimean Tatars has emphasized “indigenous people frame” (*korennoi narod*) both in the pre and post-occupation and annexation period in Crimea. Third, following the Euromaidan protests, Ukraine has moved towards a “multiculturalist frame” in which the Verkhovna Rada (Ukrainian Parliament) has recognized both indigenous and official national minority of status of the Crimean Tatars in March 2014 (Aydin and Sahin, 2019, 40).

This research aims to focus on the concept of chosen trauma and psycho-historical roots and consequences of the Crimean Hybrid Conflict in 2014 (Oğretir-Ozcelik, 2017). Its objective is to present how the Soviet Genocide (*Sürgün*) has affected the formation of the Crimean Tatar identity and it has been affecting the Crimean Tatar responses to the Russian occupation of Crimea as the Second *Sürgün*. The chosen trauma - the *Soviet Genocide* of the forced deportation (*Sürgün*) - has played a significant role to shape the Crimean Tatar national identity. This study argues that factors like psychological chosen traumas, national cohesion, inter-religious disputes between ethnic groups, and international support may provide the needed insight to understand why a minority group such as the Crimean Tatars may choose nonviolence (Öğretir and Özçelik, 2017). It hopes to outline that the Crimean Tatars forced deportation or the Soviet Genocide (*Sürgün*) as social group identity maker have inspired the Crimean Tatar national movement. Furthermore, the paper examines the Crimean Hybrid Conflict from international, psycho-social and political perspectives. In the following part, Turkey's foreign policy actions are evaluated in this regional conflict with the specific emphasis on the Crimean Tatars. In conclusion, the paper assumes that if the conflicting parties want to reach win-win and constructive solutions to the Crimean Hybrid Conflict, there should be a regional peace policy with a multi-level and multi-disciplinary focus as well as the implementation of multi-track diplomacy.

1. The Soviet Genocide: *Sürgün*

It has been argued that ethnic conflicts in multi-national states are generally a reflection of intense issues regarding economic, social, security and identity. The conflict analysis and resolution discipline emphasize the satisfaction of basic human needs. If two basic human needs – identity and security – are not satisfied for the conflicting ethnic groups, the deep-rooted and protracted violent conflicts are inevitable in international relations (Öğretir and Özçelik, 2008). The identity needs of the Crimean Tatars are rooted in the forced deportation of them on 18th May 1944 by Stalin. The incident known as *Sürgün* or the *Soviet Genocide* is labelled as chosen trauma. The term “chosen trauma” by Volkan (1997) refers to the shared image of an event that cause a large group (i.e. ethnic group) to feel helpless, victimized, and humiliated by another group. It is a process that large group remembers the memory of a persecutory event and attributes it an extraordinary amount of historical and emotional significance. The “chosen trauma” paradigm provides an excellent psychological framework to analyse the phenomenon of conflict such as the Crimean Hybrid Conflict in 2014. Intentionally, no ethnic group wants to be victimized. Instead, it can “choose” to psychologize and

mythologize the event. As a result, the shared image of traumatic event becomes a significant large group marker for their identity. According to Volkan (2001), traumatized groups may develop two kinds of leadership: reparative and destructive types. The reparative type employs the chosen trauma event to unite the group and amalgamate its identity without damaging another group. Such chosen traumas for ethnic groups are another important source of the ethnic group identity creation, maintenance, and re-identification.

The national aspirations of the Crimean Tatars are closely linked to the territory of Crimea because of their historical, linguistic and religious ties. The national identity of the Crimean Tatars cannot be separated from their actions of the national movements. Within the Crimean Tatar context, the understanding of the current situation is necessitated with the emphasis on the historical setting and the roots of the developments of the national consciousness after the forced deportation, namely *Sürgün*. The national awakening, survival and identity of the Crimean Tatars is intertwined with the deep-rooted effects of the *Sürgün*, the *Soviet Genocide* which was coined by Williams in his book title (Williams, 2015). As a new narrative, the *Sürgün* may be connoted as the *Soviet Genocide*.

The Crimean Tatars are a Turkic and Muslim group and officially recognized as the indigenous people (*korennoi narod*) of the Crimean Peninsula. On 18 May 1944, Stalin forcibly deported en masse Crimean Tatars into Siberia and Central Asia. The event was labeled as the “*Sürgün*”, namely forced deportation. In new narrative of the chosen trauma, it is called as the *Soviet Genocide* of the Crimean Tatars. Since that time, they have carried out nonviolent and peaceful struggle in cooperation with the Soviet dissidents such as Andrey Sakharov and Petro Grigorenko. Since the collapse of the Soviet Union, they have returned to their homeland or *Yeşil Ada* (Green Island). According to the only reliable Ukrainian census in 2001, the population of the Crimean Tatars was 243,433 out of the total of 2,033,700. It was equal to 12,1 percent of the Crimean population and it was 6,4 times higher than the 1989 census (Ukrcensus, 2003). It should be mentioned that the Crimean Tatars claimed indigenous status for Crimea and their collective rights to be recognized under the International Labour Organization (ILO) Convention No. 169 of 27 June 1989 Concerning Indigenous Peoples and Tribal Peoples in Independent Countries (OHCHR 1989). The Ukrainian Parliament (*Verkhovna Rada*) was recognized the Crimean Tatars as indigenous people on March 2014. The resolution stated that the self-determination right of the Crimean Tatars is guaranteed within Ukraine and Mejlis was recognized as only and single highest representative and executive body of the Crimean Tatars (Yapıcı, 2018, 314).

The fundamental source of the Crimean Tatar resistance, therefore, was the policy of assimilation by the Soviet Communist Party that has denied the existence of any distinct cultural

identities and required conformity to the authoritarian government. It was accompanied by issues of economic inequality, prejudice, and persecution through constant surveillance of daily activities, unlawful imprisonment, and torture during the forced deportation (*Sürgün*) years under the Soviet rule. The Soviet and Russian governments have had an intense interest in the Crimea region since the 1700s. The Crimean Peninsula is still very important geopolitically and geostrategically not only for Russia but also for all countries in the Black Sea region (Kireççi and Tezcan, 2016).

All Crimean Tatars felt—and still feel—a strong sense of belonging to this distinct national community because they all bonded a common chosen trauma. The Crimean Tatars are all suffered from the forced deportation (*Sürgün*). The political nature of this identity has been significantly strengthened over the course of Soviet Communist rule. The Soviet authorities have attempted to diminish the effect of the Crimean Tatar identity by continuing to demonize and dehumanize the Crimean Tatars in Central Asia. The counter pressure of the Soviet authorities resulted in the assertion of the Crimean Tatar nationhood through acts of civil disobedience, nonviolent struggle and protest against the central government and its various mechanisms of social control with nonviolent tools and strategies.

2. The Situation of the Crimean Tatars After Crimean Occupation

The reaction of the Crimean Tatars nation, civil society, and politicians toward the Russian invasion and annexation of Crimea is obvious and clear cut. The Russian aggression toward the Ukrainian territorial integrity has been condemned by them. They have not recognized the decision of annexation of Crimea by the Russian Parliament (*Duma*). Civil disobedience tactics and nonviolent strategy to pressure the Russian public opinion and political elites have been used by the Crimean Tatars as well as to get support of international public opinion about unlawful and unjust act. Moreover, the Crimean Tatars have voiced their concerns and demands in the international political arenas, especially the post-Soviet countries, Western capitals, international organizations, and Turkey where a large number of the Crimean Tatar diaspora has settled down since the end of 18th century (Williams, 2015).

The Russian Parliament (*Duma*) took the decision to annex the Crimea and it has not been recognized by the Crimean Tatars. Civil disobedience tactics and nonviolent strategy have been used to make a pressure the Russian public opinion and political elites about the unlawful and unfair act toward the Ukrainian and Crimean sovereignty. Moreover, the Crimean Tatars have voiced their concerns and demands in the international political arenas, especially the different post-Soviet

countries, Western capitals, international organizations, and Turkey where a large number of the Crimean Tatar diaspora has settled down since the end of 18th century. It should be underlined that the Crimean Tatars have been used and will use only civil disobedience and nonviolent methods to reach their conflict resolution objectives. This paper also investigates how the Crimean Tatars conditions have changed under the Russian occupation forces for the last five years.

The sources of the Crimean Tatars frustration after the Russian occupation of Crimea have three main areas: political, international, and psycho-social. The indigenous people of Crimea, Crimean Tatars, were returned their exile after the collapse of the Soviet Union. They have found that Russians occupied their houses, the Crimean Tatars city names were changed, and the majority population of Crimea has become ethnic Russian settlers. Unlike 1994 Crimean Crisis, the new conditions of the Crimean Tatars “homeland” have witnessed transformations in social, economic, cultural, political, international and psychological domains. It is important to analyse the Crimean Tatars in different dimensions because the Crimean Hybrid Conflict in 2014 has made the Crimean Tatars “invisible” and “neglected”. They have become a part of “regional hegemonic struggle” and their political, cultural, and educational institutions have been disentangled. They have been facing new challenges and re-definitions about their national identity, self-determination discourse and the forced deportation (Sürgün) narratives. The analysis of different dimensions aim to show us “changes in Crimean Tatars discourses about Self, Other, and national self-determination”. (Buhari-Gülmez, 2018, 204). The main discourse about self-determination emphasizes universalist approach in which Mejlis and Mustafa Cemiloglu leadership as well as the Crimean Tatars diaspora leadership seek internal self-determination of Crimean Tatars within Ukraine. This section examines the situation of the Crimean Tatars in three dimensions in order to shed light on how it has been affecting to shape the Crimean Tatar National Movement (CTNM) and diaspora political discourse in post-2014 Crimean Hybrid Conflict as well as the Crimean Tatars’ identity and forced deportation (Sürgün) narratives.

2.1. Political Dimension

One of the primary Russian allegations to occupy Crimea was the violation of human rights of Russians who have been in Crimea since the disintegration of the Soviet Union. The Council of Europe, the Organization for Security and Cooperation in Europe (OSCE), and the United Nations have found no evidence of pressure and discrimination against Russians since the spring of 2014. On the contrary, they reported human rights violations in Crimea against Ukrainians and particularly the

Crimean Tatars. The Russian occupation authorities have carried out unlawful searches at the Ukrainian-language radio and television stations and the Tatar-language television station (ATR). Similarly, same authorities have forcefully entered into Ukrainian Jewish (because there are Karaim Tatars who belong to the Jewish faith), and the Islamic religious and civic buildings such as the Crimean Tatars National Assembly (the *Qırımtatar Milli Meclisi*). Also, Islamic religious cemeteries have been targeted by Russian extremists and vandals. The Crimean Tatars believed that their homeland, Crimea, has been transformed a place from hard to live to harder to live. After the Russian invasion, Crimea has become place for racist and xenophobic activities against the Crimean Tatars (OSCE, 2015). After the Russian occupation, the Crimean Tatars relations with the local Russian authorities have been tense. One example was the Crimean political leader Sergei Aksyonov who moved from the Transdnestr region of Moldova to Crimea in 1989. He was the leader of the neo-fascist *Russkoe Yedynstvo* (Russian Unity formerly called *Avanguard*) (Kuzio, 2015: 271). After he became an acting head of the Crimean Republic, he prohibited the mass rallies in Crimea when the Crimean Tatars came together for the commemoration of the 70th anniversary of the Crimean Tatar deportation (Markedonov, 2016). He was the one of the Russian politicians who declared the Crimean Tatars' self-governing body, the *Qırımtatar Milli Meclisi*, did not exist and threatened anyone in Crimea who encourages ethnic hatred to be expelled (Radio Free Europe/Radio Liberty RFE/RL, 2014).

Following to the illegal seizure and annexation of Crimea and the city of Sevastopol, the President Putin as the leader of the Russian Federation has given a speech at the Russian Parliament Federation Assembly (*Duma*). Before that speech, Putin has made a phone call to the Crimean Tatar leader Mustafa Cemilev-Kırımoğlu. After that, he had face-to-face meeting the Crimean Tatar representatives in Sochi and presented following promises to the Crimean Tatars:

- The Russian politicians embark on one-year and five-year plans in order to help the rehabilitation of the Crimean Tatars,
- The Crimean Tatar *qurultay* and other *qurultay*'s institutions such as the *Qırımtatar Milli Meclisi* should be recognized.
- The Crimean Tatars' land, property, economic and legal problems should be resolved.
- To restore and protect the cultural rights of the Crimean Tatars.
- The education institutions in the Crimean Tatar language should be improved.
- The Crimean Tatar place and geographical names should be restored and used.
- The Crimean Tatar language press and mass media institutions should be supported (World Freedom Foundation, 2015).

The condition of the Crimean Tatars has deeply deteriorated in many ways since the occupation of Crimea in 2014. First, there has been an extraordinary increase on many unsolved crimes and unidentified murder, especially kidnapping of the Crimean Tatars activists. The most important kidnapping occurred to Mr. Ervin Ibragimov who is the Crimean Tatars activist and the member of the Crimean Tatars World Congress Board of Directors. The Amnesty International and other human rights organizations condemned the kidnapping of Mr. Ibragimov by masked uniformed men. Second, the Crimean Tatars national representation organs – *qurultay* and the Crimean Tatars National Assembly (the *Qırımatar Milli Meclisi*) – activities have been suspended “to prevent anti-Russian acts and to oppose the Russian Federal laws” on 13 April 2016. Then, the Crimea’s Supreme Court totally banned the *Qırımatar Milli Meclisi* “due to its extremist activities” on 26 April 2016 (Guardian, 2016). Third, two important Crimean Tatars national leaders, Mustafa Cemilev-Kırımoğlu and Refat Chubarov, both of whom are the members of the Ukrainian Parliament (*VerkhovnaRada*) have been prohibited to make legal entrance to Crimea on 22 April 2014 for the next five years (until 2019). In reaction of such prohibition against two leaders, the Turkish Foreign Ministry has harshly condemned all Russian activities against the Crimean Tatars.

2.2. International Dimension

The Crimean Crisis in 2014 could be categorized as “frozen conflict” or “contested states”. Interestingly, other frozen conflicts such as Transnistria, Nagorno-Karabakh, South Ossetia, Abkhazia and even Kosovo have been related to the Russian foreign policy strategy (Özçelik 2016a). The occupation of Crimea has shown that the world has witnessed giving birth into a new frozen conflict with important consequences for international security and peace. Such frozen conflict could be a chosen strategy by Putin’s Russia to test the West’s international role. It has become an important reality for the international relations of the United States and EU. The role of EU in the international recognition of Kosovo is an interesting topic to understand the Crimean Crisis. The occupation of Crimea has once again demonstrated that Russia can use its military forces against its neighbours to pursue her foreign policy ambitions with its hardline nationalist approach.

The reactions of the world towards the occupation and annexation of Crimea have been using mostly sticks not carrots. The international community has chosen to punish Russia mostly with international political and economic sanctions. Two most important countries of Europe, France and Germany, have portrayed relatively less sharp responses to Russia’s aggression than the Eastern European countries (the Baltic Republics, Romania, Poland, and Bulgaria and) (Özçelik 2016b).

Despite Germany has had dependency on Russian gas and continued strong economic relations, the Chancellor Merkel has become a leader to support strong sanctions against Russia (Özçelik 2016c). However, the Chancellor stressed that the territorial integrity of Ukraine can be achieved without including Crimea. Only after international pressures, France had to cancel two Mistral types warships deal that Russia has already made the payment in order to modernize the Black Sea Fleet. For example, the US President Barack Obama have put pressure on Paris to “press the pause button” on the warship deal with Russia (France24, 2016).

On the other point of view, many far-right European parties (Austria’s and the Netherlands’s Freedom Party, United Kingdom’s UKIP, France’s National Front, Greece’s Golden Dawn, and Bulgaria’s *Ataka* Party) and some leftist party (Spain *Podemos* and Greece’s *Syriza*) have silenced to support to Russian aggressive acts against Ukraine and Crimea due to Kremlin has sent them funding to carry out Putin’s hybrid war strategy or II. (SECOND) Cold War strategy (Telegraph, 2016). Regarding the reactions and response of the international community, it is necessary to underline that some states have recognized the illegal annexation of Crimea and the city of Sevastopol by Russia. The seven states that recognized Crimea as a part of the Russian Federation are as follows: Syria, North Korea, Nauru, Cuba, Afghanistan, Venezuela, and Nicaragua. Additionally, other non-state entities such as South Ossetia, Nagorno-Karabakh, and Abkhazia have supported the Russian claims about Crimea and Sevastopol (Attia, 2014).

It is crucial to analyse the Chinese response to Russian intervention to Ukraine in 2014. It was the most challenging issue that has tested two important world powers’ friendly and gentle relations. China was against Russia’s recognition of independence of Abkhazia and South Ossetia because of the principles of respecting sovereignty and territorial integrity that is one of the most important pillars of the Chinese foreign policy. Although Russia and China characterize their relationship as strategic partnership, China’s reaction to Russian invasion of Crimea has been quite diplomatic that she stays neutral. The statement of the Chinese foreign ministry underlined the political resolution of the Ukraine crisis and urged all conflicting parties to use restrain and avoid escalatory moves (Kreutz, 2015). From the Chinese point of view, the Crimean occupation can be seen as a serious threat to its state unity and national security considering that Russia’s actions encourage separatism and become a precedent for future international crises. On the other hand, the Ukrainian crisis was a complex issue from Chinese point of view since Beijing consider the Maidan Revolution as “a Western-led conspiracy” (Kaczmarek, 2015). As a result, the Chinese policy-makers have avoided choosing either the Western or Russian positions for the Crimean crisis (Özçelik 2016d). In the UN Security Council,

Beijing generally used the abstain votes in order to neither condemn nor support Russia's actions (Tiezzi, 2014).

The type of Russian behaviour in Crimea and Ukraine can be described as total aggressiveness and lack of cooperation that was similar to the Russia-Georgia crisis of 2008. In the middle term, the economic sanctions and the small military escalatory moves may cause flawed results. After the Russian-Georgian ceasefire negotiations, the EU began cooperation talks with Russia and the United States pushed the reset button for the relations with Russia in 2009. Since the 9/11, Russia has become the West's closest allies on War of Terror. In the name of cooperation against the threat of Islamic extremism, Russia and the West put aside their differences and accept Putin's hardline nationalist aspirations (Ozcelik and Karagul 2015).

2.2. Psycho-Social Dimension

The main grievance of the Crimean Tatars is the historical injustice and the Soviet Genocide or *Sürgün* that is the deportation of the Crimean Tatars on 18th May 1944. As a chosen trauma, the deportation narratives of the Crimean Tatars have produced a body of memories and recollections that has been instrumental for survival of the Crimean Tatars community and identity. The *Sürgün* has been an emotional connection for the past and identity construction for today and future. During their exile, the Crimean Tatars have sustained a strong feeling of community and a belief that Crimea is their historical homeland (Williams, 2002, 323-347). Under the leadership of Mustafa Cemiloglu, they have maintained moderate practical nonviolent national struggle. The Crimean Tatars have always followed moderate conflict resolution positions that aim to achieve mutually satisfactory solutions and compromise among conflicting parties namely the Russians, Ukrainians and the Crimean Tatars (Bukkvoll, 1997, 58).

The Crimean Tatars have used civil disobedience tactics and nonviolent strategy in order to restore their fundamental rights, return their homeland, and to be accepted as indigenous people of Crimea since the post-World War II period. For example, when Mikhail Gorbachev was in power, a group of the Crimean Tatars has done courageous and unexpected defiance and protest acts against the Soviet oppression and repression at the heart of Moscow in the Red Square and the Kremlin on 23-24 July 1987 (Bohdan and Swobada, 1990). The Crimean Tatars have again used the "Sharpian nonviolent strategies" with peaceful demonstrations when the occupation of Crimea began on March 2014. Intimidation tactics have been used by the Russian occupation authorities such as imposing 23,000 Dollars fine who attend any protest activities against the Russian Crimean authorities (QHA

2014). The broadcasting license of the Crimean Tatars language TV station (ATR) have been revoked. As a result, it has moved its studios to Kyiv (Goncharenko, 2016). The Russian Crimean security forces have attacked many Crimean Tatars' homes and businesses (Coffey, 2015). The Human Rights Watch and other international non-governmental organizations (NGOs) have presented their reports stating that the Crimean Tatars mosques and religious schools (*medrese*) have been illegally searched by the Russian security forces. They also seized many religious books including the Muslims' holy book of the Qur'an (Human Rights Watch, 2014). Also, the Crimean Tatars have been forced to accept the Russian citizenship and to apply for the Russian passport during the "passportization process". Approximately 25,000 out of 300,000 Crimean Tatars have moved from the Peninsula after one year of the occupation. They considered this forced migration as the second forced deportation (*İkinci Sürgün*) (Paul, 2015).

3. Turkish Foreign Policy and the Crimean Tatars

Up until the shooting down the Russian plane near the Turkish-Syrian border in 2015, the Turkish foreign policy about the Crimea and Ukrainian Crisis has been defined as the "middle road approach". Turkey has two clear positions: First, she declares that the seizure and annexation of the Crimean Peninsula is not recognized by Turkey. Second, the territorial integrity of Ukraine was supported by Turkey. Also, Turkey has voted in favour of the decision territorial integrity of Ukraine and supported the United Nations General Assembly decision on 27 March 2014. The Turkish foreign policy makers stated several times that Turkey does not recognize the illegal annexation of Crimea by the Russian Federation through illegitimate and illegal "referendum" held in Crimea on March 2014. Also, Ukraine's sovereignty and territorial integrity are strongly supported by Turkey (Turkish Foreign Ministry, 2016). However, Turkey's stance about Crimea can be viewed from realist paradigm in international relations. The regional *realpolitik* is a significant deterministic factor for Turkey's foreign policy toward Crimea and Crimean Tatars.

After Russian aggressive and provocative actions, Turkey has urged the diplomatic explanation of the Crimean Tatars situation. Turkey established a committee as a fact-finding mission to review situation in Crimea. The committee prepared a report titled as "the Situation of the Crimean Tatars after the annexation of Crimea by the Russian Federation" (Anadolu Agent, 2015). In the report, it is mentioned that the basic human rights of the Crimean Tatars were violated by the Russian Federation during and after the occupation of Crimea in post-2014 era. Particularly, language and education rights, , right of property, freedom of speech and free press, right of dwelling, and right to fair trial

were violated and the Crimean Tatars were forced to change their citizenship to the Russian citizenship and their passport to the Russian passport (QHA 2015b).

The *Qırımatar Milli Meclisi* demanded that Turkey should participate in the Western sanctions against Russia after the occupation of Crimea. Furthermore, the Crimean Tatars representatives strongly voiced their opinion about the reconsideration of the Montreux Convention and implementation of *Küçük Kaynarca* Treaty and other bilateral and multilateral agreement. They called for the Straits should close to the Russian warship and navy. In addition, the *Qırımatar Milli Meclisi* urged the Turkish authority to dispatch Turkey's ships and navy to the Black Sea. However, Turkey rejected these demands because it violated international maritime law and specifically the Montreux Convention. Because of the absence of NATO decision, Ankara rejected the deployment of the Turkish navy in the Black Sea. After the conflict was spilled over to the Eastern Ukraine, both USA and NATO have dispatched their navy and ships for the reconnaissance missions to the Black Sea. It was claimed that these deployments were mostly preventive measures for the Russian expansionist and irredentist moves (Ozcelik and Karagul 2015).

In 2015, Putin visited Erivan, the Armenian capital, to attend the 100th anniversary of the 1915 Incident / the so-called Armenian Genocide. After that Turkey's middle road approach has begun to change. Turkish authorities have decided to give full support the Second World Crimean Tatar Congress that was held in Ankara between 1-2 August 2015. From 12 different countries, 184 Crimean Tatar civil society organizations have sent 480 delegates to unite all the Crimean Tatars under the same objective, framework, and perspective. In the Congress, it was declared that although it was futile and has given no result the dialogue initiative with the Russian and Crimean authorities, the Crimean Tatar national movement should have continued its nonviolent characteristics. As a result, all Tatars believed the continuous dialogue with Crimean and Russian authorities. They also voted and accepted the decision to give a full support to the territorial integrity of Ukraine in all international political environment and platforms. They also strongly reiterated their condemnation of the illegal Russian occupation and annexation of Crimea. Also, they underlined that Turkey may initiate more constructive moves and play more cooperative role to find the peaceful solution for the Crimean conflict (Yılmaz, 2015).

Turkey's response against the occupation and annexation of the Crimean Peninsula can be analysed within the realist and neo-realist paradigms. Turkey has refused to recognize the unlawful annexation of Crimea by Russia and supported the territorial integrity and full sovereignty of Ukraine since the 2014 Crimea Conflict. It was stated that the Ukraine Crisis may reached more peaceful solution within the framework of diplomatic solution and international rules and law as well as

respecting interests and rights of the Crimean Tatars (TC Disisleri Bakanligi, July 2016). Turkey has shown its moral support to the Crimean Tatars. They invited their national leader Mustafa Cemilev-Kırımoglu to receive from the President Abdullah Gül the “Republic Medal” almost two months later of the annexation of Crimea (Anadolu Ajansı, 2014). Another interesting support initiative was to organize a press conference with the ex-Foreign Minister Ahmet Davutoğlu and to treat the Crimean Tatar national leader Mustafa Cemilev-Kırımoglu in a state level protocol (TC Disisleri Bakanligi March, 2014). The third positive response from Turkey was that the first time in Turkish political history, three main parties (AK Party, CHP, and MHP) mentioned the Crimean Tatars in their election declarations (AKP, 2015; QHA 2015c; QHA, 2015d).

The Turkish foreign policy initiatives toward the Crimean Tatars may be seen as positive steps. Nevertheless, Turkey has mostly followed a balanced policy about the Crimean Hybrid Conflict because of her sensitivity and dependence on Russian trade, tourism, energy, and economy. For example, Turkey has refused to take part in the Western-led economic and political sanctions against Russia. Many states such as Norway, Japan, Canada, Norway, Switzerland, and Australia have implemented bilateral sanctions against Russia (European Parliament, 2015). Moreover, Turkey has elevated her relations to Russia into new level during this period. Russia withdrew from previous energy pipeline agreements in order to bypass Ukraine. Instead, both Turkey and Russia have come to an agreement to propose an alternative pipeline project so called the “Turkish Stream” in order to Turkey become main transfer route for Russian gas, and oil into the Western market. Moreover, Russia has been awarded to the Akkuyu nuclear plant tender. In a good will gesture, Russia has given six percent sale to Turkey on gas trade. In addition, Turkey has used this window of opportunity to increase its trade and economic relations with Russia. Turkish businesspeople have signed 12,5 billion dollars investment agreement with Russia in Crimea. Also, the Crimean Turkish Businessmen Council was established in August 2015 (Hurriyet). In short, the Turkish-Russian relations have been very friendly and cooperative up until the 2015 Russian Sukhoi Su-24 shootdown within the Turkish airspace near the Turkish-Syrian border by the Turkish fighter pilots. In the post-rapprochement process, the relations between Turkey and Russia have been evolved semi-strategic partnership.

The Turkish main foreign policy toward Crimea and the Crimean Tatars has been “balanced realist constructivism” that combines realist power and geo-political/geo-economical/ geo-strategic ingredients with the constructivist identity, values, international norms and regimes and decision-making processes. Realist moves were described above. Turkey has supported the resolution of crisis within international law and diplomacy (peace value), defended the Ukrainian territorial integrity (international norm), and urged respecting of the Crimean Tatars human rights and freedoms

(constructivist). Turkey and Russia have high interdependence and sensitivity in many different issue areas such as economy, tourism, trade, mixed families, and energy. As a result, both sides may use diplomatic tools and dialogue to find the common solutions to their differences in many foreign policy issues. One indicator is the voting of extension of Russian sanctions at the European Council Parliament Assembly (ECPA) in January 2015. There were 10 Turkish parliamentary representatives at ECPA. In the voting, only two of them voted in favor of the continuation of sanctions against Russia. The extension of sanctions was rejected by four of them. Other four representatives used absentee votes (QHA, 2015e).

Diasporas are defined as pressure groups who search the potential allies such as journalists, civil society organization, academics, other diaspora groups, and media persons in order to carry out the lobbying activities to construct bridge between diasporas and home countries and to build transnational coalitions. Diasporas aim to change the foreign policy decisions and outcomes toward their homeland (Perazzi, 2011). In the first time in their history, the Crimean Tatars diaspora in Turkey has become an active player in Turkish foreign policy. Like the Kosovar Albanian and Chechen diaspora, the Crimean Tatars diaspora in Turkey has been witnessed a transformation from passive into active and pro-active lobbying initiatives and activities. In 1783, Russia invaded and annexed Crimea. Since then, most of the Crimean Tatars have been forced to immigrate “*Aktopraklar*” or Turkey. Because the Crimean Tatars have forced to escape from Russian oppression, persecution and tyranny for the last 200 years, approximately 5 million Crimean Tatars have been migrated to Turkey and another 250,000 have inhabited in Romania and Bulgaria (Mack and Surina, 2005). There are other diaspora groups in Turkey such as Bashkirs, Caucasians, and Volga Tatars who migrated to Turkey to escape the Russian oppression and aggression. The total number of people that become a Diaspora to Turkey from Tsarist Russia/Soviet Republics could be more than 17 million people. As a result, there are powerful lobbies that can influence not only Turkish-Russian relations but also Turkish-Ukrainian-Russian trilateral relationship.

The Crimean Tatars in Turkey have supported the idea that the Crimean Tatars have legitimate demands towards Crimea since they claim that the Crimean Khanate has ruled there for 365 years. The occupation of the Crimea by Russia had tremendous significance for political developments of the Crimean Tatar diaspora in Turkey. The diaspora has intensified its lobbying activities not only in Turkey but also all over the world. The World Crimean Tatar Congress has raised the Crimean Tatar cause in different international platforms such as non-governmental organizations, international organizations, and important world state capitals (QHA, 2015a). The Crimean Tatar diaspora in Turkey has become an important player and acted together with exiled Crimean Tatar leadership to

follow lobbying activities toward the Turkish government to support efforts to stop the Russian occupation of Crimea. In every February of the year, the Crimean Tatars diaspora in Turkey has participated demonstrations to show their solidarity with their co-patriots in Crimea at the anniversary of the occupation of Crimea. With the help of the diaspora, the Tatar issue has become a domestic political issue in Turkey (Balcer, 2015).

Conclusions

In summary, first the Russian unlawful and illegal first occupation and then the Russian hybrid war (Özçelik, 2016e) tactics together with the controversial referendum of the annexation of Crimea have negative effects on peace, security and stability in the Caucasus and the Black Sea regions. The Western powers, in essence the European Union and the United States of America, have applied failed sanctions-based policy and soft power tactics.

After Crimea, Russia has become the main player in the Syrian conflict, it has shown its expansionist and irredentist aspirations with her political and military muscles in the backyard of Turkey and the Middle East region. The Russian policy in Crimea and Syria can be labelled as “double containment policy” toward Turkey. The occupation of Crimea was the first containment action of Turkey from the northern side. The Russian military intervention to Syria could be seen as the second containment of Turkey from the southern flank. The close relationship between Russia and Armenia as well as Russia and Iran could be viewed as the part of the northern and southern containment policy toward Turkey. The continuation of tension and instability in Crimea and Syria has given geopolitical, geo-economical and geo-strategical advantages to Russia in the Caucasus, the Black Sea, the Middle East and the Balkans (Özçelik 2016f).

Most Ukrainians have felt disappointment with the latest *Euromaidan* revolution and previous colourful revolutions that targeted to have better future with the hope of the integration of EU and NATO. They believed that the EU-led sanctions have not produced expected consequences against the Russian double containment policy because Europe has rising dependence and sensitivity toward the Russian carbon-based energy resources. Russia’s double containment policy involved economic, politic and military containment of Turkey in Crimea and Syria. Moreover, Russia has established friendly strategic relations with Armenia, Iran, and Iraq in order to contain Turkey from the southern part.

The only contention to the Russian invasion, occupation, and annexation of Crimea has come from the Crimean Tatars with peaceful and nonviolent strategies, tactics, and tools. The Crimean Tatars have made big differences on the ground and made harder for Russian authorities in Crimea

to establish full sovereignty over Crimea in comparison to Abkhazia and South Ossetia. When the unmarked and masked Russian armed men controlled over the Crimean Parliament on February 26, the Crimean Tatars gathered in front of the Crimean Parliament for mass demonstration and largest rally. They successfully confronted the pro-Russian separatists and opposed to Russian takeover of the Crimean Parliament (Oxana). The Crimean Tatars have endured suffering during the *Soviet Genocide* of the forced deportation (*Sürgün*) during the the post-World War II period. When the Little Green Men forcefully broke into Crimea on March 2014, the memories of the past chosen trauma have pushed resurface through Crimean Tatars' group consciousness again. Many Crimean Tatars has fled to Ukraine because of the fear of second forced deportation. Also, the example of Putin's iron fist against the Chechen independence disturbs the staying Crimean Tatars because of possibility of living constant tyranny and oppression under the new Russian rule in Crimea.

The condition of the Crimean Tatars has further deteriorated by the fact that they have been squeezed because of the power struggles among big powers the United States, the European Union and Russia, as well as regional powers such as Ukraine and Turkey. Also, the Crimean Tatars have been seen wrongly as so-called Islamist jihadists with the existing prejudice, biases, and stereotypes by the Russian mass media and Russian society. Russia has played well the Western concern about the rising so-called "Islamic terrorism" to put the Crimean Tatars as a part of the worldwide jihadist terrorist network. Although the Crimean Tatars was not and will never declare jihad on Russia because they have always implemented peaceful and nonviolent strategies, tactics, and methods to return their homeland and obtain their fundamental human rights and freedoms. However, the Islamophobia and Xenophobia have increased not only in Russia but also in the Western and Central regions of Ukraine because most of the Crimean Tatars have migrated to those regions and "the major part of the population is known for its religiosity and are mostly Greek Catholics" (Brylov, 2016). Also, it should be acknowledged that the Crimean Tatars have been structurally discriminated by the Ukrainian government up until the 2014 Crimean Hybrid Conflict. Under the Ukrainian rule in Crimea, they have seen no or little political, social, and economic improvements in their conditions. For example, Ukraine has accepted the Crimean Tatars' rights to return to the Crimean Peninsula from exile, but she has not given a full citizenship in order to integrate them into the Crimean society. Most of the Crimean Tatars have voted the first time in the 2002 elections because they obtained the Ukrainian citizenship. At that election, seven Crimean Tatars became successful to be the member of the Crimean Supreme Council (Kuzio, 2015). In 1994-1995, the almost carbon copy crisis has occurred between Ukraine and the Russian-supported Crimean authorities. The crisis has reached a resolution after a cooperative agreement with the help of successful fact-finding missions and third

party intervention, namely Mr. Max van der Stoel who was the High Commissioner of National Minorities (HCNM) of the Organization for Security and Cooperation in Europe (OSCE). In 2014, the peace-loving and democratic Western powers reactions were absent. As a result, the Crimean Tatars have forced to sustain their lives under oppressive, fearful, and lonely conditions for the last five years. It is possible to categorize the Crimean Hybrid Conflict as “frozen conflict”. It became protracted and deep-rooted hybrid conflict (inter-state, ethnic, linguistic, religious, etc.) at the heart of Europe. Although most international relations specialists have analysed the 2014 Crimean Crisis with geo-political, geo-strategic and geo-economic factors, both Russians and Crimean Tatars have psycho-historical and psycho-analytical roots and origins toward Crimea. In order to find win-win and constructive solutions to the Crimean conflict, there should be a regional peace policy with a multi-level and multi-disciplinary focus as well as the implementation of multi-track diplomacy.

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The impact of corporate governance on cost of capital: an application on the firms in the manufacturing industry in Borsa Istanbul[†]

Berna DOĞAN*, Melek ACAR**

Abstract

Corporate governance has become an important issue in the aftermath of international financial crises, corruption and corporate scandals since the 1980s. Corporate governance is a broad term and it defines the methods, structure and the processes of a company. In this context, the term corporate governance plays a significant role in ensuring that the firm moves optimally in the right direction. In this study, the effect of corporate governance practices on the cost of capital is investigated empirically in 76 manufacturing industry companies listed on Borsa Istanbul (BIST) between 2008 and 2017. In this context, the system Generalized Method of Moments (GMM) estimator developed by Arellano-Bover (1995), one of the dynamic panel estimation methods, was used. The results showed that the increase in the number of members of the board of directors and the ratio of women in the board of directors, which are the corporate governance mechanisms, have an increasing effect on the cost of capital. We also found that the variables of CEO duality and institutional ownership did not affect the cost of capital.

Keywords: Corporate Governance, Cost of Capital, Generalized Method of Moments, Borsa Istanbul

Introduction

The world has witnessed a series of institutional failures and corporate scandals that have shaken the belief of investors and other stakeholders in financial markets. Traditional governing structures have not properly protected stakeholders from these scandals and corruption. In this context, professional organizations and regulatory authorities in developed countries aimed to regain their trust by adopting a number of management rules to protect the interests of stakeholders. Thus, a number of regulations and guidelines have been issued in developing countries with the support of international organizations such as the World Bank and the OECD.

[†] This study is derived from Berna Doğan's master thesis entitled "The Impact of Corporate Governance on Cost of Capital and Firm Performance: An Application on the Firms in the Manufacturing Industry in Borsa Istanbul".

* Berna DOĞAN is Res. Assist. at Gaziantep University, Faculty of Economics and Administrative Sciences, Department of Business Administration, Gaziantep, Turkey, e-mail: dogan.brn@gmail.com.

** Melek ACAR is Prof. Dr. at Selçuk University, Faculty of Economics and Administrative Sciences, Department of Business Administration, Campus 42031, Konya, Turkey, e-mail: melekacar@yahoo.com.

In recent years, the need for improving corporate governance has intensified in many developed and developing countries with the increasing number of corporate scandals around the world. However, since past financial scandals, interest in corporate governance in developed economies and developing economies has increased day by day. Good corporate governance practice has become necessary to improve firm performance, protect investor rights, improve the investment environment and promote economic development.

Corporate governance is the rules and practices that govern the relationship between a company's executives and stakeholders. Corporate governance contributes to the growth and financial stability by strengthening market confidence, financial market integrity and economic efficiency. In this context, corporate governance distributes rights and responsibilities among various participants in a firm, such as board members, managers and stakeholders, while at the same time ensuring clear decision-making rules and procedures for the business.

Firms can obtain outcomes such as better access to external financing, higher firm performance, and lower costs by implementing the corporate governance system. Turkey has started corporate governance practices later than other countries and Turkey's ability to benefit from these advantages depends on the ability to solve socio-economic problems, determine how to strengthen the capital market and ethical and general corporate governance standards. However, the 2008 global crisis has increased awareness of the need to improve a corporate governance system to enhance financial transparency in Turkey. Therefore, Turkey has given priority to corporate governance rules in order to have a better economy. In this context, first of all, corporate governance principles and internal control mechanisms should be developed.

Good corporate governance practices prevent controlling shareholders and managers from seizing cash flows and violating minority shareholders' rights. With the increase in corporate governance quality, investors have more confidence in the company. Increasing investors' trust provides the firm with more capital flow at a lower cost (La Porta et al. 2002, p. 1164). Successful corporate governance practices enable firms to decrease their capital costs and increase their financing opportunities and liquidity while enabling them to supply more funds from capital markets (Öztürk and Demirgüneş, 2008, p. 395). In addition, corporate governance practices reduce the risks faced by investors by providing more transparent financial information and making more private information public and make it easier for firms to find financing at a more affordable cost (Ashbaugh et al. 2004, p. 6).

When the national and international literature on the subject is examined; although there are many studies on corporate governance, no research has been found the relationship between the

corporate governance mechanisms and the weighted average cost of capital for the firms listed on BIST. Investigating the factors affecting the costs of firms on the basis of corporate governance may be beneficial for firms and financial regulators in terms of preparation for possible crises. This study aims to fill an important gap in the literature by identifying the impact of management and ownership structures on the capital costs of firms. The relationship between corporate governance practices and cost of capital on BIST manufacturing industry firms between 2008-2017 has been examined empirically. Findings of the study, it can contribute to the determination of the effects of corporate governance practices on firms 'costs and thus to investors' decision-making. However, the study will help financial regulators make decisions about reducing bankruptcies and protecting stakeholders' well-being. Similarly, it is expected to contribute to senior management focusing on corporate governance reforms. In this study, firstly the development of corporate governance practices in Turkey was reviewed, related literature was examined, information was given about the dataset and method, then suggestions were made by evaluating the obtained results.

1. Corporate Governance in Turkey

Corporate governance is based on the basic principles of transparency, equality, accountability and responsibility. Although the awareness of corporate governance and practices all around the world, Turkey has started to work in 2001 for the first time in this area. Like corporate governance practices started with the crisis in other countries, the economic crisis in 2001 and the sinking banks are the major factors in the start of corporate governance practices in Turkey also. Turkey has an increased need for a management system that will make it more resistant to the crisis for some reasons such as the lack of laws to fully protect the rights of investors and stakeholders, the flight of capital, great losses caused by crises, the costs to Turkey caused by poorly managed sectors, and so corporate governance began to apply.

Institutions and legislators which make arrangements regarding corporate governance have established rules by adhering to aforementioned principles. "Corporate Governance Code of Best Practice: Composition and Functioning of the Board of Directories" guide that prepared by the working group Turkish Industrialists' and Businessmen's Association (TUSIAD) in Turkey was the first important step in this regard. Subsequently, Capital Markets Board (CMB) has implemented several activities to encourage compliance with the regulations on corporate governance. The second of these studies, was the establishment of the Turkey Corporate Governance Association to adopt, develop and use the best corporate governance practices by companies in 2003. Another study in the

same year was conducted by the Capital Markets Board and corporate governance principles were put into practice in publicly-held corporations. The study, prepared by the CMB in 2003, is the first legal regulation. Then, in 2006, the Banking Regulation and Supervision Agency (BRSA) regulated corporate governance principles in banks. Besides, important regulations have been made in the area of corporate governance system with the New Turkish Commercial Code No. 6102 (Alp and Kılıç, 2014, p. 106). The new Capital Markets Law No. 6362, published on 30.12.2012, was the beginning of a new period in terms of corporate governance legislation. Aforementioned regulations, which were updated in time and became final under the name of Corporate Governance Communiqué in 2014, is very important in terms of compliance with corporate governance principles of the public company in Turkey. These regulations are based on principles set by OECD. In addition, The Turkish Commercial Code, which entered into force in 2012, introduced important provisions concerning the board of directors and the general assembly. Legislative provisions that will make the audit mechanism more effective have been mitigated by the subsequent amendments, but serious steps have been taken in this regard. The concept of corporate governance in the “Duties and Powers” section of the previous law, was examined in detail in the third section of the New Capital Markets Law under the heading of “Corporate Governance Principles”. One of the important points discussed in this section is the application of equal rules for all firms in equal conditions in order to prevent unfair competition. Another important point, it is compulsory for publicly-held corporations to start the transactions to be determined by the board after the decision of the board of directors. The CMB also established the BIST Corporate Governance Index (XKURY) in 2007. Companies that have a degree of compliance with corporate governance principles are included in the index and discounts on the fees of these firms are maintained. Thus, companies were encouraged to rate their levels of compliance with corporate governance principles to provide cost advantages. At the beginning of the calculation (August 31, 2007), four companies were included in the index and this number increased to seven at the end of 2007. In 2019, the total number of publicly-held corporations in the index increased to 47.

2. Literature Review

The section below discussed presents the review of prior studies conducted. Documentary evidence suggests that the relationship between corporate governance structure and cost of capital can either be positive (Chen et al., 2003; Anderson et al., 2003; Ashbaugh et al., 2004; Klock et al., 2005; Pham et al., 2007; Reverte 2009; Teti et al., 2016) or negative (Regalli and Soana, 2012; Bozec

et al., 2014). There are many studies analysing the relationship between corporate governance and the cost of capital. Chen et al. (2003) examined the impact of public disclosure and other corporate governance mechanisms on the cost of equity in 9 emerging Asian economies. As a result of the study, it was found that both the protection of investors at the country level and corporate governance practices at the firm level was found to be important factors in reducing the cost of equity.

Anderson et al. (2003) examined the effect of constituent family ownership on agency cost in 252 firms registered in Lehman Brothers bond database and S&P's 500 Industrial Index between 1993-1998, and found that potential agency problems between partners and lenders would be less in firms with constituent family ownership. Klock et al. (2005) examined the relationship between the cost of debt and prevention of takeover and a management index with various provisions for the protection of the shareholder by using the data of 678 firms operating in the US markets between 1990 and 2000. As a result of the study, they concluded that the provisions aimed at preventing the takeover to reduce the cost of debt.

Pham et al. (2007) investigated the role of corporate governance practices in creating value and the impact of firms on capital costs by using the data of the 150 largest publicly-held corporations in Australia between 1994-2003. As a result of their studies, they found a significant and inverse relationship between financial expense/total debt ratio and the cost of debt represented by corporate governance and the increase in corporate governance quality reduces the cost of debt. Paige Fields et al. (2012) examined the relationship between the quality of the board of directors of firms and bank loan costs between 2002-2005 and concluded that as the quality of the board increased, firms could borrow with lower cost and more comfortable conditions.

Regalli and Soana (2012) examined the impact of corporate governance quality on the cost of equity in 122 financial institutions operating in the USA between 2002-2006. As a result of the study, the quality of corporate governance practices in firms increased as the cost of equity increased. Tanaka (2014) investigated the relationship between debt costs and corporate governance practices of Japanese firms and it was found that CEO ownership and family firms faced higher bond costs and the firms with high corporate investors have low bond costs.

Bozec et al. (2014) examined the relationship between the cost of debt and equity and the weighted average cost of capital of the majority shareholder companies. The findings of the study clearly showed the significant and same impact of excess power on the weighted average cost of capital. Teti et al. (2016) investigated the effect of corporate governance practices implemented by publicly-held corporations in Latin America on firms' equity costs. The results of the analysis reveal the inverse relationship between the quality of corporate governance and the cost of equity. Zhu

(2014) examined the firms operating in 24 developed countries between 2002 and 2005, investigating whether the increase in corporate governance quality would lead to a reduction in debt and equity costs and found that in countries with stronger legal regulations, more transparent and better management quality, both the cost of debt and the cost of equity were lower.

3. Empirical Strategy

3.1. Data and Sample

In this study, it was examined 76 manufacturing industry firms that are traded continuously between 2008 and 2017 on Borsa Istanbul and whose financial statements and annual reports can be reviewed continuously. Such firms are in Turkey has a significant share of the manufacturing sector in economically and technologically. Manufacturing industry firms is the basic building block of Turkey economy as it creates export, employment and added value. It has approximately 4.5 million employees and its share in exports is 93%. The sample firms are distributed among many sectors of the economy (Table 1). The data used in the research were obtained from the Public Disclosure Platform, Borsa Istanbul, investing.com and the official websites of the companies and assumed to be current and accurate.

Table 1. Data description - Firms by Industry

Industry	No.	Share
Basic Metal	4	0.05
Chemicals, Petroleum Rubber and Plastic Products	12	0.16
Fabricated Metal Products Machinery Electrical Equipment and Transportation Vehicles	15	0.20
Food, Beverage and Tobacco	11	0.14
Non-Metallic Mineral Products	18	0.24
Other	1	0.01
Paper and Paper Products, Printing and Publishing	7	0.09
Textile, Wearing Apparel and Leather	8	0.11
Total	76	100.00

The period of the study was limited to 10 years between 2008 and 2017 in order to examine the effects of corporate governance practices on capital costs of firms. The reason for the use of the 2008-2017 period in the study is that besides the availability of data, the corporate governance practices of companies have gained importance since the beginning of the 2000s as a result of the scandals experienced and regulations have been developed in recent years.

Cost of capital indicator was used as the dependent variable in the study. The weighted average cost of capital (WACC) represents the cost of capital. The WACC separates the total capital into common equity, preferred equity, long-term debt, and short-term debt. The weights of each financing resource are calculated by dividing each amount by total capital. The weighted average cost of capital is meaningful to firms. The cost of capital reflects the minimum required rate of return on a project in order to make it worthwhile. It also provides the necessary return to the providers of capital, which is based on the risk of the firm's current operations. Management must efficiently allocate capital within the company to meet the WACC. If the WACC is set too high, the firm has to reject valuable opportunities leading to demolishing shareholder value. Strong governance practice can lower the WACC by reducing monitoring costs through aligned interests between top management and shareholders.

Demsetz and Lehn (1985), Anderson et al. (2004), Hail and Leuz (2006), Piot and Missonier-Piera (2007), Pham et al. (2007), Lorca et al. (2011), Singhal (2014), Zhu (2014) and Bozec et al. (2014) have chosen WACC as the dependent variable in their studies.

In this study, WACC was calculated with the following formula:

$$WACC = W_d i_d (1 - t) + W_e i_e$$

where i_d represents the cost of debt, i_e represents the cost of equity calculated using the Capital Asset Pricing Model (CAPM), W_d represents the weight of the debt, W_e represents the weight of equity and t represents the corporate tax rate. The weight of the debt is calculated as the value of the debt / (the value of the debt + the value of the equity), while the weight of the equity is calculated as the value of the equity / (value of the debt + the value of the equity). In this equation, $W_d + W_e = 1$.

Corporate tax rate is obtained from www.finnet.com.tr. The cost of equity is calculated with the CAPM as follows:

$$i_e = r_f + \beta_i \times (r_m - r_f)$$

where r_f is the risk-free rate of return, β_i is the systematic risk of shares (sensitivity to market risk), r_m is the return of the market portfolio, and $r_m - r_f$ is the market risk premium.

As a risk-free rate of return in the cost of equity calculation and CAPM calculation were used 10-year bond interest data of Turkey's Treasury. As the return of the market portfolio, the annual return of the BIST 100 Index was taken and these data were obtained from the official website of Borsa Istanbul. Risk-free rate of return in the relevant period is subtracted from the market return and market risk premiums are calculated. Annual beta coefficients and cost of debt data were obtained

from www.finet.com.tr. When the market risk premium and beta coefficient are multiplied, total risk premium data is reached.

Four explanatory variables were used in the study. These are board size (BOARD), the ratio of women managers on the board of directors (WOMEN), range of institutional ownership (OWN) and CEO duality (CEO). These variables are explained below.

Board Size: This variable, which represents the size of the board, was added to the model by taking the logarithm of the number of board members. The Board of Directors (BD), within the framework of the authority granted by the shareholders at the general assembly, uses their powers and responsibilities in line with internal regulations, legislation, policies and main contract and represents the company (SPK, 2014, p. 24). BD is committed to maximizing the firm's market value when making decisions. To this end, BD conducts its business in a manner that ensures that its shareholders make a long-term and stable profit. While doing this, it also takes care not to disturb the delicate balance between the stakeholders and the growing requirements of the firm (SPK, 2003, p. 37). Authors such as Bhagat and Black (2002), Kiel and Nicholson (2003), Beiner et al. (2006), Pathan et al. (2007), Kyereboah-Coleman (2007), Mashayekhi and Bazaz (2008), Adams and Ferreira (2009), Larmou and Vafeas (2009), Chahine and Safieddine (2011), Elsayed (2011), Swastika (2013), García-Meca et al. (2015), Vintilă and Paunescu (2016), Georgantopoulos and Filos (2017) and Ersoy and Aydın (2018) have also used the size of the board as an independent variable in their models.

The Ratio of Women Executives on the Board of Directors: This variable was added to the model by proportioning the number of women board members to the total number of board members. The representation of women in the board of directors has recently been examined as an important topic. Because women's board of directors highlights the benefits of gender diversity on financial performance (Julizaerma and Sori, 2012, p. 1083). Most of the regulations on gender diversity that occur with the participation of women in the board of directors based on the opinion that women board members will affect the corporate governance of the firm in a good way. According to this view board of directors can increase their activities by incorporating female board members and creating a wider pool of talent (Adams and Ferreira, 2009, p. 292). At the same time, it is stated that women board members can contribute positively to the firm's value with different perspective that they will contribute to the decision-making process (Karayel and Doğan, 2014, p. 76).

Concerning women members in Turkey Serial: IV, No: 57 on "Communiqué Amending the Communiqué on Determination and Application of Corporate Governance Principles" was published in the Official Gazette in February 11, 2012, and numbered 28201 and was entered into force. With this communiqué, "There is at least one female member on the board of directors" principle has been

introduced and it is not obligatory to apply it. This principle is recommended in accordance with the principle of “apply, explain if you do not apply” (Karayel and Doğan, 2014, p. 76). Authors such as Randøy et al. (2006), Rose (2007), Campbell and Minguez-Vera (2008), He and Huang (2011), Ujunwa (2012), Mirza et al. (2012), Horváth and Spirollari (2012), Fauzi and Locke (2012), Mahadeo et al. (2012), Vo and Phan (2013), Cook (2013), Karayel and Doğan (2014), Vintilă and Paunescu (2016), Detthamrong et al. (2017) and Topaloğlu and Ege (2018) used the proportion of women managers on the board as an independent variable in their models.

Institutional Ownership: It is obtained by dividing the number of shares held by institutional investors by the number of shares in the circulation of the firm. This ratio shows how much of the shares in circulation are purchased by institutional investors. Since institutional investors are investors who avoid risky investments, increasing institutional ownership (OWN) may mean that the firm reduces its risk level or follows a more risk-free policy than other firms. The performance of the companies with less risk may increase, and the performance of these firms may decrease as they cannot take advantage of the opportunities. Authors such as Lefort and Walker (2000), Iglesias-Palau (2000), Almazan et al. (2005), Mashayekhi and Bazaz (2008), Çelikand Isaksson (2014), Acaravcı et al. (2015), McCahery et al. (2010), Bebchuk et al. (2017) and Lewellen and Katharina (2018) used institutional investor ownership as an independent variable in their models.

CEO Duality: CEO duality is that the general manager is also the chairman of the board of directors. The general manager is also defined as 1 if the chairman of the board of directors, and 0 if not. According to representation theory, the duality application creates a unity of command will make decisions faster and focuses on the company's objectives (Boyd, 1995, p. 302). According to the resource dependence theory, the fact that the chairman or member of the board is the CEO at the same time may reduce the amount and diversity of resource links outside the company. Therefore, a strong leadership structure resulting from duality will adversely affect firm performance. Kula and Mühsürler (2003), Chen et al. (2005), Elsayed (2007), Peng et al. (2007), Mashayekhi and Bazaz (2008), Bhagat and Bolton (2008), Aygün and İç (2010), Gill and Mathur (2011a), Gill and Mathur (2011b), Erkens et al. (2012), Ujunwa (2012), Alves et al. (2015) and Topaloğlu and Ege (2018) have chosen CEO duality as an independent variable for corporate governance principles in the models they have established.

In the study, leverage ratio was taken as the control variable. Leverage ratio is calculated by proportioning the total debts of the firms to their total assets. As a result of this ratio, it is concluded that what percentage of the assets are financed by debts. The ability of firms with high total debt ratios to continue their operations depends on the debts. If this ratio is too high, the risk of the firm may

increase and fall into financial distress or even bankruptcy. While highly leveraged firms are risky, they will not always be able to repay their debts and have new loans. While high leverage is often a negative situation, the debt investment relationship can positively affect the return on equity of firms (Doğan, 2013, p. 127). Authors such as Lam (2002), Cheng et al. (2006), Ferreira and Laux (2007), Obradovich and Gill (2012), Taghizadeh and Saremi (2013), Liao and Young (2013), Moscu (2013), Aghabaki (2014), Teti et al. (2016), Atidhira and Yustina (2017) and Ferrara et al. (2018) used leverage ratio as the control variable in their models.

The data related to the variables used in the analysis were obtained from financial statements and footnotes of companies, investing.com website and annual activity reports. The relevant tables and annual reports are obtained from the Borsa Istanbul Financial Archives of 2008. In 2009 and later, it was obtained from the annual reports, web sites, footnote and Public Disclosure Platform of the companies. Annual data were used in the study and 10 periods were examined in total. Variables and calculation methods used in the research are given in Table 2.

Table 2. Research Variables and Calculation Methods

Codes	Variable	Calculation Method
<i>Dependent Variables</i>		
WACC	Weighted Average Cost of Capital	$(\text{Debt Weight} \times \text{Cost of Debt}) * (1 - \text{Tax Ratio}) + (\text{Weight of Equity} \times \text{Cost of Equity})$
<i>Independent Variables</i>		
BOARD	Board Size	Logarithm of the total number of board members within one year
WOMEN	Ratio of Women Executives on the Board of Directors	The ratio of the total number of women board members to the total number of board members within a year
CEO	CEO Duality	The general manager is also defined as 1 if the chairman of the board of directors, and 0 if not.
OWN	Institutional Ownership	Number of Shares of Institutional Investors / Total Number of Shares
<i>Control Variable</i>		
LEV	Leverage Ratio	Total Debt / Total Asset

4. Method and Empirical Results

Economic and financial relations generally have a dynamic structure. Events that occur over a period are largely the result of past experiences and behaviour. Therefore, it is important to include lagged values of variables among explanatory factors when examining relationships. Among factors affecting the dependent variable may include lagged values of independent variables or dependent

variable. The panel data model allows researchers to better understand these dynamic relationships. The models in which the lagged values of the dependent variable are included as independent variables are called dynamic panel data models (Dökmen, 2012, p. 46). Dynamic models are generally shown in the following equation:

$$Y_{it} = Y_{i(t-1)} + \beta_1 X_{it} + \eta_i + \epsilon_{it} \quad i=1, \dots, N; t=1, \dots, T$$

Where;

Y_{it} : Dependent variable

$Y_{i(t-1)}$: Lagged value of dependent variable

X_{it} : Independent variable vector in dimension $K \times 1$

β_1 : Coefficient matrix in dimension $K \times 1$

η_i : Unobservable individual effects

ϵ_{it} : The element of the error which varies over group and time

One of the most common methods used in classical panel data analysis estimates is the “Least Squares Estimator” (OLS). The OLS estimator generates biased and inconsistent estimates if the explanatory variables are endogeneity in the model and prevent effective estimations (Terzioğlu and Dal, 2018, p. 41). As a result of weak effectiveness of OLS estimator, the development of a second estimation method known as the Generalized Method of Moments (GMM) has become inevitable. Therefore, GMM is the most common and appropriate estimation method in studies using panel data since it does not include above- mentioned problems. GMM is an effective estimation method classified as semiparametric. There are significant advantages to using the GMM estimator instead of other estimators using panel data. First, it is possible to control constant effects that do not change over time and horizontal cross-sectional effects using this method. Another advantage is that means that lagged explanatory variables can be used as instruments to solve the endogeneity problem that may occur in the independent variables (Çetin and Şeker, 2014, p. 135).

In the dynamic panel analysis, there are two GMM estimators including difference GMM and system GMM. Arellano and Bover (1995) GMM estimator is based on the first method. The system GMM estimator, developed by Arellano and Bover in 1995, is based on the combination of difference equation and level equations. This estimator was obtained by making some improvements to the first difference GMM estimator. Blundell and Bond (1998) and Blundell et al. (2000) demonstrated that difference GMM has a weak predictive power in a finite sample and coefficient estimates are deviated, and found that system GMM has higher predictive power (Dökmen, 2012, p. 46). In this context, due to its features such as lower deviation and higher efficiency, the system GMM estimator is superior to many estimators, especially the first difference GMM estimator. Moreover, if the

number of horizontal cross-sectional is small, the system GMM better than the first difference GMM estimator. For these reasons, it is stated that the system GMM estimator performs better than the difference GMM estimator (Bond et al., 2001, p. 9).

Whether the GMM estimator is consistent it is tested by the Sargan test, which asymptotically exhibits a χ^2 distribution. The system GMM estimator developed by Arellano-Bover (1995), one of the dynamic panel estimation methods, was used to test the impacts of corporate governance on weighted average capital cost since the data considers the time series feature and does not include biased results.

The aim of this study is to investigate the relationship between corporate governance practices and the cost of capital. For this purpose, the existence/absence of the relationship between capital cost and corporate governance practices and if there is a relationship, the direction of this relationship will be revealed. The descriptive statistics presented the output of the mean, maximum, minimum and standard deviation for the data. The results are included in Table 3.

Table 3: Descriptive Statistics

	Mean	Maximum	Minimum	Std. Dev.
WACC	1.376151	9.410000	-11.69500	2.612442
BOARD	1.943846	2.708050	1.098612	0.281075
WOMEN	0.104307	0.500000	0.000000	0.120951
CEO	0.378947	1.000000	0.000000	0.485444
OWN	56.76227	64.41000	0.000000	27.94349
LEV	0.479526	1.710000	0.060000	0.241846

Table 3 presents the descriptive statistics of firm characteristics and cost of capital. When Table 3 is examined, it is seen that the weighted average cost of capital of the firms' subject to the research is 1.38. The data in Table 3 on the corporate governance variables shows that the mean log board size of the companies has the maximum log board size of about 2.70 while the minimum is about 1.09. This suggests that, on average, the companies considered have moderate board sizes. This is good in respect of the performance of these companies because it supports recent thinking about board sizes. Onboard composition, the study shows that on average, 10% of all board members are women. Institutional ownership ranges from 0 to 100, with an average of 57, and the average of the CEO duality, which measures whether the general manager is the chairman or not, is 0.38. The average of the leverage ratio, which is the control variable, is approximately 0.48.

Table 4 shows the correlation matrix for the variables used in models and robustness control.

Table 4: Correlation Matrix

Correlation Probability						
	WACC	BOARD	WOMEN	OWN	CEO	LEV
WACC	1.000000					
BOARD	0.129328 0.0101*	1.000000				
WOMEN	-0.025702 0.6106	0.244742 0.0000**	1.000000			
OWN	0.035038 0.4875	0.191562 0.0001**	-0.207840 0.0000**	1.000000		
CEO	-0.028779 0.5685	0.112342 0.0256*	0.001190 0.9812	-0.269112 0.0000**	1.000000	
LEV	-0.143855 0.0042**	-0.134999 0.0072**	0.052327 0.2995	-0.173994 0.0005**	0.049344 0.3280	1.000000

(*) and (**) indicate significance at 5% and 1%, respectively.

According to Table 5, it was determined a positive and statistically significant relationship between the board size and the dependent variable WACC. When the relationship between the control variable and the dependent variable is examined, there is a negative and statistically significant relationship between leverage ratio and WACC.

The independent variables strongly linked to each other are called multicollinearity. If the correlation coefficients are greater than 90%, it is recommended that one or more variables not be included in the analysis (Çokluk et al. 2012, p. 35). According to the correlation analysis, there was no problem of multiple linear correlations between the variables. It is concluded that all the values in Table 4 are below 90% and therefore there is no problem of multiple linear correlations between the independent variables used in the analysis.

In order to measure the effectiveness of the variables, the J test, also known as the Sargan test, is insignificant and the acceptance of the null hypothesis indicates shows that the instruments are valid and also gives more confidence about the model. Sargan test is used to check the overall validity of the instruments. Since J-statistic probability value is insignificant in the established model, it is accepted that the independent variables are significant.

Table 5 presents the system GMM estimator results of the model related to the relationship between the cost of capital and corporate governance mechanisms and it presents the coefficients of the independent variables to represent the change in WACC.

$$WACC_{it} = \beta_0 + \beta_1 WACC_{i(t-1)} + \beta_2 BOARD_{it} + \beta_3 WOMEN_{it} + \beta_4 OWN_{it} + \beta_5 CEO_{it} + \beta_6 LEV_{it} + \varepsilon_{it}$$

where, $WACC_{i(t-1)}$ is the lagged value of WACC dependent variable and in the study, five variables, four independent variables and one control variable, were used.

Table 5: Panel Data Analysis Results

Dependent Variable (WACC)		Arellano-Bover Estimator	
Variables	Coefficients	p Value	
WACC(-1)	-0.326668	0.0000**	
CEO	-0.234537	0.1888	
OWN	-0.007331	0.2524	
BOARD	0.986527	0.0027**	
WOMEN	0.528092	0.0437*	
LEV	-0.002814	0.0000**	
J-statistic (p value)		0.231967	
AR(1)		0.0008	
AR(2)		0.1160	
Observations		760	

(*) and (**) indicate significance at 5% and 1%, respectively. In the null hypothesis test without autocorrelation, the null hypothesis was rejected in the test of the presence of autocorrelation related to the model in the second-order autocorrelation (AR2) test of Arellano and Bond (1991). Thus, it is provided that there is no second order autocorrelation required for the suitability of the model.

According to Table 5, it is accepted that J-statistic value is insignificant for the established model and therefore the validity of instruments hypothesis cannot be rejected. In the model established within this scope, $WACC_{i(t-1)}$ is the lagged value of WACC dependent variable and was found to be significantly opposite in relation to 1% statistical level with WACC. According to the results of the system GMM, the coefficient of this relationship was -0.326668. When all other variables are considered constant, one unit increase in $WACC_{i(t-1)}$ causes a decrease of 0.326668 units in WACC ($p < 0,000$). Therefore, the negative impact of the previous period's WACC on cost of capital of firms can be mentioned.

As shown in Table 5 P (0.2524) which is the significant value of the institutional ownership variable and p (0.1888) which is the significant value of the CEO duality, that represents whether the general manager is also the chairman or not, is greater than the critical values. There is no statistically significant relationship between WACC and institutional ownership and CEO duality, both at 1% and 5% significance levels. According to this result, any changes in institutional ownership or CEO duality do not affect WACC positively or negatively. When the other results are examined, the

variables that were associated with WACC at 1% statistical significance level were board size and leverage rate, and the variable with 5% level was ratio of women executives on the board of directors.

When the results of the model are examined, it is seen that the size of the board (BOARD), one of the variables related to the structure of the board of directors, has an effect on the weighted average cost of capital (WACC). The significance value of BOARD variable, p (0.0027), has a similar relationship at 1% statistical significance level. A 1% increase in the size of the board leads to an increase of 0.986527 units in the WACC. Accordingly, it can be said that the size of the board of directors increased the WACC and negatively affected firms. There is a positive and statistically significant relationship between board size and WACC. In other words, the increase in the number of board members increases the weighted average capital costs of firms. This finding was confirmed by the studies of Evans John and James (2003), Pham et al. (2007), Rad (2014), Bradley and Chen (2011). The negative cost of capital can be related to proxy theory. According to the proxy theory, there should be a limitation on the number of board members. It is argued that there may be conflicts in terms of group dynamics in firms that exceed the specified limits and therefore it may be adversely affected cost of capital. The increase in the number of board members may create a conflict of interest and non-compliance between the members and may increase the costs of the company.

WOMEN variable, which is related same directional to WACC at 5% statistical significance level, has a coefficient of 0.528092. When all other variables are considered constant, one-unit increase in WOMEN leads to 0.528092 units increase in WACC and this could be interpreted negatively ($p < 0.0437$). Accordingly, it can be said that that the ratio of women members among the members of the board of directors of the firms increases the cost of capital. WACC increases when the ratio of women executives on the board of directors increases. Similar results were observed in the studies of Rose (2007) and Rad (2014). On the other hand, it could not be determined a significant relationship between WACC and institutional ownership (OWN) and CEO duality.

When the results of the control variable were examined, negative and statistically significant relationship was found between leverage ratio (LEV) and WACC. Coefficient of inverse relationship at 1% statistical significance level between LEV variable representing the ratio of total debts to total assets and WACC was calculated as -0.002814. When all other variables are considered constant, one-unit increase in LEV is a decrease of 0.002814 units in WACC ($p < 0.0000$). Accordingly, it can be said that the increase in total debts in firms or the decrease in total assets, while the total liabilities are fixed, have a negative effect on the cost of capital. This result was also observed in the studies of Sagala (2003), Singhal (2014), Zhu (2014) and Bozec et al. (2014).

The findings show that WOMEN and BOARD variables, except the CEO and OWN, are important in explaining the changes in the company's cost of capital. WOMEN and BOARD have the same impact on WACC.

Conclusions

The purpose of this study is to examine the effect of corporate governance practices on the cost of capital of manufacturing industry companies whose stocks traded on Borsa Istanbul (BIST). 76 firms that have been continuously involved in the BIST manufacturing industry between 2008-2017 and whose annual reports can be accessed and the data obtained in the research. As corporate governance practices, the relationship between board size of firms, the ratio of women executives on the board of directors, CEO duality and institutional ownership variables and weighted average cost of capital were tested. In this context, in order to achieve more accurate results, because data can be fully observed, dynamic panel data analysis was performed. In this study, due to the fact that takes into account the time series feature of data and does not include biased results, the system GMM approach which was introduced by Arellano-Bond (1991) and then developed by Arellano-Bover (1995) was used as one of the dynamic panel estimation methods. In order to measure the effectiveness of the variables, the J test, also known as the Sargan test, is insignificant and the acceptance of the null hypothesis indicates shows that the instruments are valid and also gives more confidence about the model.

As a result of the analysis, it was found that firms with the large number of board members had to bear more the cost of capital. In weighted average cost of capital calculations, the cost of equity is higher as more risk is incurred than cost of debt. In this context, conflicts of interest and attitudes contrary to the interests of the company may adversely affect shareholders and hence cost of capital. The increase in the number of board members for the firms included in the study increases the cost of capital incurred by the firms. As a result, there is a negative relationship between BOARD and WACC, that is, increasing the cost. In this case, it can be said that there should be compliance with agency theory and limitation of the number of board members. On the other hand, a statistically significant relationship was determined between ratio of women executives on the board of directors (WOMEN) and the cost indicator WACC. This result shows that the ratio of women executives on the board of directors have an effect on the WACC. It is seen that the ratio of women executives on the board of directors is positive on WACC. When the results of the control variable were examined, negative and statistically significant relationship was found between leverage ratio (LEV) and

WACC. Reducing the effect of the leverage ratio on capital cost can be attributed to having tax advantage and thus the debt is cheaper than equity.

The general purpose of firms is to get the maximum benefit from the minimum cost. In this context, for firms operating in Turkey the improvement in market conditions is important to decreasing the cost of equity which is the most intensive in weighted average cost of capital. Corporate governance practices are an important factor at the ensure the protection of investors and reduce the cost of equity and therefore also the weighted average cost of capital. In this context, companies can reduce their cost of equity by reducing their risk-taking behaviours. Furthermore, the risk-free rate of return and the risk premium should be reduced. Thus, the cost of obtaining funds from the equity will decrease.

Findings obtained in the study are important for investors in terms of improving the investment environment, financial regulators in terms of promoting economic development, researchers in terms of developing new models and management of the companies in terms of improving the company performance. As a result of this study, it will be easier for investors to make decisions by determining the impact of corporate governance practices on the costs of the firm. The results of this study will also contribute to the senior management focusing on corporate governance reforms. In addition, in terms of management and ownership structures, it will shed light on companies that are traded in BIST manufacturing industry to make more accurate decisions about their future.

In future studies, the relationship between corporate governance practices and the cost of capital can be examined in terms of different sectors. In addition, the number of general assembly meetings, educations and experiences of board members can also be investigated. Apart from all this, the impact of the number of committees and the presence of committees such as audit and corporate governance can also be examined on the cost of capital.

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Financial resources - an important aspect of increasing the performance of the health care sector in Romania

Mihaela TOMAZIU- TODOSIA*, Iuliana- Claudia MIHALACHE**, Felicia- Cătălina APETROI (RĂCOARE)***

Abstract

Compared from other services, the medical services are accessed, required and necessary for any person, meaning a high cost for health care. In Romania, the level of health financing is below the European Union average, which means confronting both health professionals and patients with the lack of resources. Both funding and organization determine the proper functioning of a health system that is reflected on the population's health. This article aims to study the Romanian health system from the financing perspective and the financial management of health institutions, related to the performance level of this sector. In order to have a clear picture, Romania needs to be compared to the rest of the EU Member States in terms of financing, and sector performance. The performance degree the Romanian healthcare system contributes to a large extent to the population's general health, and it is necessary to comply with the European legislation. The degree of funding for this sector is reflected in performance and thus requires a higher GDP percentage allocated to health. The functioning of the health sector as a whole and the funding and management of its resources are a matter of general interest, given that these aspects are reflected in the health status of the population.

Keywords: financial resources, healthcare sector, performance, Romania

Introduction

Simultaneously with the world evolution, the emergence of principles and the economy were laid the foundations of the development and diversification of methods for prevention and treatment of diseases and care for the sufferers, with emphasis on the importance of the financial resources and the qualification of the personnel dealing with this domain. Thus, in the contemporary period, health services and healthcare represent a set of specialized activities, developed and carried out within

* Mihaela TOMAZIU-TODOSIA is PhD Student, Alexandru Ioan Cuza University of Iasi, Romania, e-mail: mihaela.tomaziu@gmail.com.

** Iuliana- Claudia MIHALACHE is PhD Student, Alexandru Ioan Cuza University of Iasi, Romania, e-mail: mihalacheclaudia22@yahoo.com.

*** Felicia-Cătălina APETROI (RĂCOARE) is PhD Student, University of Seville, Spain, e-mail: apetroifelicia@yahoo.com.

different specialized institutions or organizations, belonging to a community, aiming to solve various categories of problems, which affect directly or indirectly the personal and social life of different categories of people.

Health and the health services sector refer to the medical services provided by hospitals, clinics, family doctors and healthcare establishments. This type of service is categorized, uses specialists accounting to the specifics of problems and the number of requests and provides human and financial resources through which the specialized institutions aim at diminishing, preventing, removing and limiting the adverse effects of situations caused by a poor state of health. In this regard, an essential contribution is represented by the available financial resources and their management.

Any decision of the health system from the point of view of financing and managing the resources at the national level must put the citizen and his physical, mental and social health in the forefront. As a result, this article starts from the idea that, in a national and global context, it is necessary to deepen the study of the financial management of the hospital units, considering that this affects the performance of the hospital units. The topicality of the topic is highlighted by the need to rethink and re-evaluate the financing of the health sector in the European context and, on the other hand, to analyse the impact of health sector financing and resource management on the performance of the health sector. The topical theme, regarding the quality, respectively the performance and the financing of the health sector, as well as the effects of these aspects on the population's health, is making the premises of a complex analysis. Thus, the authors' aims are to highlight the importance of the performance of health services, as well as the fact that this aspect is directly influenced by the available financial resources. The highlighting of Romania from this perspective in the EU context contributes to the understanding of the needs to allocate a higher percentage of GDP to this sector, in order to increase performance.

1. Literature review

The financing of the health sector, as well as its performance, have proved to be important topics since the 1970s, when numerous researches began to emphasize the need for financial resources to support the population's health. Among the authors who studied the importance of the financial resources for health services, from the period 1970-1990, there are Kleiman (1974), Newhouse (1977, 1987), Donaldson and Dunlop (1986), Parkin and coll. (1987), Culyer (1989), Milne and Molana (1991), Gerdtham and Jonsson (1991), who have demonstrated a positive correlation between the financial resources allocated to this sector and the population's health status, in most OECD countries,

but also in the European Union. More recent research has also focused on assessing the importance of the correlation between the volume of public spending with health, population's health status and the growth of GDP, respectively Murthy and Ukpolo (1994), Hansen and King (1996), Di Matteo (1998), Gruen and Howarth (2005).

Helms and Damiano (1995) argue that performance hospital management serves as a safety net for the poor and the rural population. Mick et al. (1994), Rizzo (1991), Cleverley (1992) also argue that effective financial resources increases the ability of the rural population to access these services. Treat (1976), Ozcan et al. (1992), Ozcan and Luke (1993), Grosskopf and Valdmanis (1993) support the importance of hospital performance in both rural and urban environments. Lynch and Ozcan (1994), Lynn and Wertheim (1993), Whiteis (1992) considers that poor financial management influences the performance of hospitals, leading to their closure, especially in rural areas.

According to Walburg et al. (2006), concepts of health performance were developed in the early 1980s, referring to the use of indicators to measure and improve the performance of employees, teams, and organizations. In particular, it marks the measurement and increase of the quality of the care process, using the resources available in the most efficient way. (Walburg, J. et al., 2006, p. 39). The first series of health monitoring performance programs have been implemented in the United States in the cardiology sector. In 1995, the National Committee for Quality Assurance (NCQA) launched its first HEDIS Health Performance Reporting Program in the United States, a program used in over 90% of health plans and several organizations that measure performance at the system level, as well as the supplier. (Bottle et al., 2017, pp. 42 - 44).

One of the ways to measure the performance' degree of health services is the Euro Health Consumer Index (EHCI), present in the report published by Health Consumer Powerhouse, which is an index by which a comparison is made between the efficiency of health systems. The aim of the study was to select a number of limited indicators, in a determined number of evaluation's fields, which, in combination can present a degree of performance of the health systems in the analysed countries. The EHCI index includes indicators such as: patients' rights and information (12 indicators); waiting time to receive treatment (6 indicators); system's results (9 indicators); coverage with basic services (8 indicators); prevention (7 indicators); pharmaceutical products (7 indicators).

Since 2004 Health Consumer Powerhouse (HCP) publishes a wide range of comparative analysis regarding the healthcare performance in different countries, with help of Euro Health Consumer Index (EHCI); the most representative publication in this regard is the annual report Euro Health Consumer Index (EHCI).

In January 2008, the Frontier Center for Public Health Policies and HCP released the first report, the „Euro- Canada Consumer Health Index”, which compared the health systems in Canada and 29 European countries, examining the performance of the health care from a consumer perspective in the province; new editions were published in 2009 and 2010. (Eisen and Björnberg, 2010, pp. 1 – 48). The Euro Health Consumer Index, launched in July 2008, compares the performance of 29 European cardiovascular health systems, covering 28 performance indicators. A new edition was published in 2016, and another edition in 2017 regarding disease prevention in this field. (Björnberg and Uhler, 2008, pp. 1 – 61).

The Euro Health Consumer Index Diabetes, launched in September 2008, has rendered the performance of the European healthcare services ranking in the field of diabetes, in the key areas: information, consumers’ rights and choice; generosity; prevention; access to procedures and results. A new edition was published in 2014. (Garrofé et al., 2014, pp. 1 – 71). Other reports that were published include: Euro HIV Index 2009, Euro Headache Index 2012 and Euro Hepatitis Index 2012. Among the publications that used the Euro Health Consumer Index (EHCI), in order to analyse the performance of the health sector financing, we mention: Clarke and col. (2003), McCabe and col. (2005), Baggott and Forster (2008), Gonçalves (2011).

2. The importance of financing the health sector

Financial resources for a country's health services can be collected in different ways and are closely linked to per capita income. A less developed country, such as Romania, will obviously face a poor budget for health, and none of the funding methods will be able to offer a solution that will fully solve the acute problems. Generally, the funding methods are:

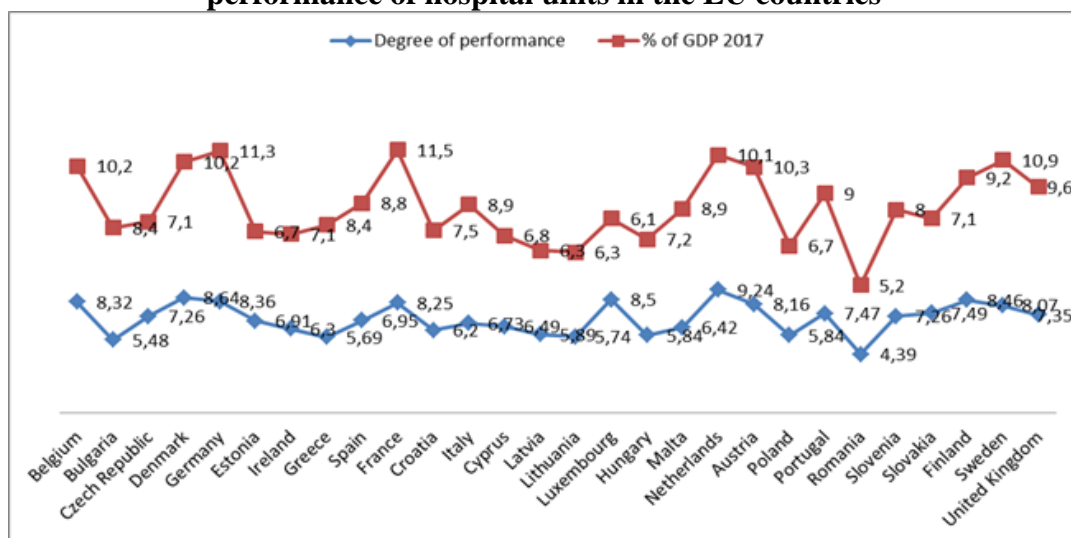
- Compulsory health insurance, established by the legislation in force and which helps the state to cover some of the needs of the health care system;
- Optional health insurance provides the possibility for every willing person to transfer the risk of occurrence of an undesirable health event to the insurer. The amount for this voluntary insurance is calculated for each individual, depending on the incidence of the disease and has recorded a significant increase in recent years;
- Direct payment to beneficiaries of the health services received can be fully realized, as a rule, in the private sector, or in partially, such as co-payment and co-insurance, methods encountered in the public health sector. However, problems arise from the fact that the poor or the elderly,

considered the main beneficiaries of health services, may reduce the access to or even abandon this care system given the payment impossibility;

- Resources from the state or local budget (community budget), these financial resources come from the contribution of the inhabitants, according to their income, taxes and duties. These funds are collected to the state budget and then distributed to the hospital units.

Health is a vicious economic sector, where financial resources play a central role. It is fundamental that we can ensure the health and well-being of the citizens of the European Union, as well as the productivity in the Member States. The health sector accounts for 10% of EU's GDP, and holds a share of 8% of the total European workforce, according to Eurostat (2017). In itself, health is a value, as well as an investment sector with strong growth potential, which is why it is necessary to allocate as much as possible from GDP.

Figure 1. Correlation between the Healthcare expenditure (%GDP) and the increase in the performance of hospital units in the EU countries



Source: authors' elaboration based on available data at <https://healthpowerhouse.com/media/EHCI-2018/EHCI-2018-report.pdf>

The EHCI index (Euro Health Consumer Index) is the most complex way of calculating the performance degree of health sectors, including the performance of their financing. EHCI 2017 is made of 6 components, respectively: (1) patients' rights and information, maximum score 125; (2) waiting time, maximum score 225; (3) system's results, maximum score 300; (4) coverage with basic services, maximum score 125; (5) prevention, maximum score 125; (6) pharmaceutical products, maximum score 100. In order to calculate the degree of financing performance, the average of one component or the average of the 6 sub-components can be correlated with the GDP's percentage allocated to the health sector or with expenditure per capita for health.

It may be noticed that the degree of health systems' performance of the EU state members depends, to a large extent on the degree of financing. (Figure 1). Belgium provides a percentage of 10,2% of GDP to the healthcare sector and has an performance degree of 8,32%, Germany provides a percentage of 11,3% of GDP and has an performance degree of 8,64%. Romania has the lowest level of performance, of 4,39%, as well as the lowest percentage of GDP allocated to this sector, 5,2%. The highest performance degree is found in Netherlands, respectively 9,24%, a country that provides a percentage of 10,1% of GDP; although France is providing the highest percentage of GDP (11,5%) to the healthcare system, this thing means only 4.026,15 USD per capita allocated to health, comparing to Netherlands, which allocates a lower percentage of GDP (10,1%),but this means 4.746,01 USD per capita allocated to health. This aspect also applies to the state of Luxembourg, which, although is allocating 6,1% of GDP to the health sector, this means 6.236,00 USD per capita spent on health.

3. The performance of the health care sector

The performance of the health system is one of the main pillars of state development, as the health of the population directly influences the productivity of labour. A country with prospects for development is a country where every citizen's access to quality medical services is respected. Presently, the Romanian medical system is functioning poorly in almost all its components. The resources consumed, however low compared to the European average, are not being used effectively. Romania is ranked the last in the rankings for the performance of health systems in Europe.

Figure 2. Reporting and Analytics Capabilities for Quality and Performance Improvement



Source: Strome, (2013), p. 18

Considering that healthcare is one of the most complex sectors, improving its quality and performance is also being done with a high degree of difficulty. Thus, questions such as "What has occurred?" (circle 1) and "What is it occurring now?" (circle 2) can help highlight the current performance, and identify improvement or, on the contrary, worsening, deterioration. The question "Why is it occurring?" (circle 3) goes one step further and helps the hospital unit to identify the causes of certain types of problems, highlights the relationship between expectations and reality. The question "What is likely to occur?" (circle 4) allows, given the appropriate models and data, the anticipation of outcomes and the issues which may arise, as well as their causes, in the sense of acting, at the right time, on causes rather than on effects. These approaches help to highlight the relationships between different various factors, which, being of a different intensity, can have a negative impact on the quality and performance of hospital units.

It is known that a developed country will invest more in financing the healthcare sector, compared to a less developed country, which is also reflected in the national economy. Also, the degree of financing of the healthcare sector influences the performance of these services through many aspects, such as: (1) the number of existing beds at hospital level, (2) the number of medical staff, (3) the provision of high- modernization of hospital units, (5) population coverage with basic medical services, (6) population access to health care. The existence of a high-quality level is fundamental to monitoring a health system.

Within medical services, there are many terms used to describe the elements of performance improving. (McLoughlin and Leatherman, 2003, pp. 136 – 142). In order to identify the safe means that lead to the performance of the healthcare institutions, mainly, the easiest way is represented by the financial resources. Resources must be used with caution and transparency, both at the micro and macro levels. In the book "Measuring Up - Improving Health System Performance in OECD Countries", there are mentioned a category of actions, that could lead to this sectors' performance growth (McLoughlin and Leatherman, 2003, pp. 136 – 142):

- External supervision, which refers to the periodic checks by the authorities, aiming at the accreditation and certifications of the institutions, as well as the settings of performance objectives that must be achieved in a certain period of time;
- Involvement of the patient and his freedom to choose for the services that are provided to him, based on the information provided by the health institution and based on the knowledge of the law in force;

- Establishing of certain strict rules, at the national level, for those in charge and for the medical staff;
- The knowledge of the medical staff leads to the improvement of the quality of the provision of the medical assistance and thus, it is necessary to evaluate them periodically, to establish certain rules of professional conduct, protocols necessary to be followed;
- Financial incentive, such as remuneration for performance results obtained, as well as non-financial incentive, aimed to increase the desire for professionalism of the medical staff.

Conclusions

The study indicates that health sector financing influences the performance level of these services and thus the state of health of the population at the national level. Romania is among the developing countries, which do not allocate a significant percentage of GDP to health, which in turn influences the national economy.

Financial resources also influence the performance of the healthcare sector by managing the available financial resources. The financial resources and their efficient management are an essential aspect of the efficient functioning and performance of the healthcare sector. In Romania, the GDP percentage allocated to health is low, and the less efficient and transparent management of existing resources cause the lack of medical staff, lack of advanced technology, aspects that directly affect the performance of these services.

The main purpose of any health system is to answer adequately to the patients' specific needs, and in this respect, the performance of the public health institutions is directly proportional to the budget allocated to the system. Romania's adherence to the EU determined that the health status and the services offered at the level of the EU's state members to become reference frame also for the population of our country. The performance level of a system is essentially determined by the way it is funded and organized, including in terms of collecting and attracting resources, as well as their use. In our country, funding from healthcare sector has always been low, compared to the European average. In this sense, one of the explanations is related to considering the health sector as a non-productive one. Further on, our country is in the last places in the EU in terms of resources allocated to health.

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